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ABSTRACT

This manual contains student assignments in the financial services area of the marketing process. The individualized competency-based materials are intended to enhance and supplement instruction or to provide the basis for a course of instruction by the teacher-coordinator. Information on skills needed in jobs in financial marketing is first listed. These skills are categorized into basic, social, and midmanagement skills. Twelve assignments follow that can be given in any sequence. Each assignment follows this format: objectives, informative material providing the knowledge (cognitive) competencies, questions on the material, and projects whose completion requires student application and synthesis of the competencies. Topics covered include bank services and their importance; the banking system; the structure of banking; banking operations; support services for the paying and receiving function; the lending function; the trust function; internal marketing functions; business development, advertising, and promotion; bank administration; bank investments; and banking trends and career opportunities. (YLB)

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Financial Services Marketing

By

Lucretia Maria Olson

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Competencies and Content

for *Financial Services Marketing*

In order to enter and progress in jobs in financial marketing, you will be required to develop and use many skills. You may already use some of these skills both at home and at work. Other more specialized skills and competencies relate only to your tasks at work. Let's take a look at some very basic skills you should know and be able to use as you enter employment.

The first list of basic skills describes activities you will need to perform with accuracy and courtesy to benefit you, your customer, and your employer. The second list of social skills will also benefit the customer and employer, but they will benefit you most.

Working to become proficient in these areas will increase your opportunities for success and advancement. You may want to use the list to predict your job performance. As you progress and learn and become more proficient in one area, check it off and work on other skills that you need to develop. The more skills you master, the more your chances for successful performance are enhanced.

Both Entry Level and Midmanagement Level

Basic Skills

Utilize basic skills in the application of marketing functions.

- ☐ Use legible handwriting in preparing forms, messages, and records.
- ☐ Listen attentively to directions, assignments, and information from customers, supervisors, or managers.
- ☐ Communicate verbally with customers, employees, supervisors, suppliers, and others.
- ☐ Communicate verbally with groups including firm personnel, civic organizations, and others.
- ☐ Compose and complete correspondence, reports, forms, and notes.
- ☐ Perform mathematical computations applicable to marketing functions in this occupational area.
- ☐ Use information from tables, graphs, and charts such as tax tables, work schedules, organization charts, etc.
- ☐ Use the telephone correctly and courteously.
- ☐ Use calculating equipment to perform mathematical computations.
- ☐ Interpret computer output such as printouts, visual display screens, etc.
- ☐ Use a typewriter to prepare letters, forms and reports.

Social Skills

Demonstrate appropriate social skills in terms of self-development.

- ☐ Demonstrate good work habits such as punctuality, orderliness, and patience.
- ☐ Demonstrate effective work habits by planning and scheduling work tasks and assignments (time management).
- ☐ Maintain good appearance and health.
- ☐ Demonstrate appropriate ethics such as integrity and honesty.
- ☐ Adjust and adapt to new and unique ideas and situations.

NOTEBOOK QUICK-FILE: Where to find information related to job performances, competencies, and DECA competitive events.

- ☐ Convey a positive image of self and the firm.
- ☐ Assume responsibility for individual actions and/or department and company operations.
- ☐ Accept constructive criticism and take appropriate corrective actions.
- ☐ Maintain necessary endurance, forbearance, and persistence in order to accomplish goals and objectives.
- ☐ Display appropriate sense of humor.
- ☐ Budget time effectively by managing leisure, work, and home affairs in ways that enable individual goals to be achieved.
- ☐ Use success or failure constructively in a work situation.
- ☐ Be dependable in the work environment.

Demonstrate appropriate social skills in relations with others.

- ☐ Work cooperatively with other employees, supervisors, or managers.
- ☐ Serve customers courteously to represent the firm favorably.
- ☐ Treat others as individuals.
- ☐ Work cooperatively with other persons outside the firm such as suppliers, advertisers, community representatives, etc.
- ☐ Use appropriate assertiveness when working with other employees, managers, and customers.
- ☐ Understand the needs, desires, and goals of individuals with varying social and cultural backgrounds.
- ☐ Demonstrate initiative in dealing with customers, other employees, and managers.
- ☐ Assume a shared responsibility for success or failure of the work group.
- ☐ Establish and maintain credibility with customers, co-workers, employees, and managers.
- ☐ Adjust to demands of job requirements such as deadlines, pressures, conflicts, etc.
- ☐ Reinforce positive behavior and provide constructive criticism.

Midmanagement Level Only

Demonstrate an understanding of the following economic principles/concepts in regard to job performance:

- ☐ Contributions of profit and the profit motive to the economy, business, and the individual.
- ☐ Nature of credit and its influence on the economy, business, and the individual.
- ☐ Effects of laws, regulations, and agencies of governments on business organizations.
- ☐ Influence of financial institutions such as the Federal Reserve system and commercial financial institutions (banks, savings and loans, credit unions, etc.) on the availability of credit and supply of money.
- ☐ Effects of consumerism movement upon the economy, business, and the individual.

Establish and maintain credit and finance policies.

- ☐ Analyze credit and financial trends by studying federal reports, analyses, and projections.
- ☐ Analyze credit and financial operations using credit and financial guides and indexes.

- ☐ Evaluate existing credit and financial policies and procedures and make changes or adjustments as needed.
- ☐ Use credit and financial data to estimate degree of risk involved in extending credit, lending money to firms or individuals, or investing in a firm or industry.
- ☐ Establish guidelines for approval of credit accounts.
- ☐ Establish interest rate structure.

Analyze financial reports and records.

- ☐ Study information affecting investment programs of individuals, trusts, and business and industry.
- ☐ Analyze financial data from charts and graphs to determine current and long-term investment trends.
- ☐ Analyze losses and adverse financial trends and suggest remedial measures.
- ☐ Compile reports on status, value, and cost of handling accounts.
- ☐ Study credit and investment data to estimate degree of risk involved in extending credit, lending money, or suggesting investments to firms or individuals.

Establish and maintain security procedures.

- ☐ Establish policies and procedures regarding security systems to control customers' fraudulence.
- ☐ Safeguard against forgeries, counterfeit money, bad checks, and altered checks.
- ☐ Enforce policies and procedures to encourage payments from marginal accounts.
- ☐ Provide for customer protection by enforcing credit and finance regulations that apply to opening of accounts, false or misleading statements, publication of prescribed credit and finance information, etc.

Other OCD Publications

Perhaps you have studied or had helpful experience in developing the competencies listed. If you would like help in learning more or in reviewing what you already know, you should use the following materials:

- General Marketing Curriculum
- Advanced Marketing Curriculum
- Applied Arithmetic for Distribution
- Your Attitude Is Showing
- Doin' Business
- Practical Selling
- Basic Retail Credit
- Advertising
- American Enterprise Series—including
  - The Selling Function
  - The Promotion Function
  - The Marketing Function
  - The Management Function
  - Financial Management

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Additional Material Recommended by your Teacher-Coordinator

Foreword

Financial Services Marketing provides unique new individualized information and technology materials. This publication caters to the needs of students who have interests in financial services that are a part of the marketing process.

The publication is competency-based. The competencies identified in the Lynch study under a contract from the U. S. Office of Education and those identified for competition by DECA have been used extensively as the basis for the assignments. The information in the assignments provides the knowledge (cognitive) competencies. The application and synthesis of the competencies is derived by the student from the completion of the learning activities and from daily tasks performed on the job.

This publication is very flexible. Assignments can be given in any sequence and can enhance and supplement instruction. They can be assigned as students need to acquire certain knowledge and attitudes. The entire publication can be used as the basis for a course of instruction by the teacher-coordinator.

The content and projects are the work of Lucretia Maria Olson, former teacher-coordinator of marketing and distributive education in the Houston Independent School District. Miss Olson brings together her experiences in the field of financial services marketing and in teaching the curriculum. She has had numerous winners in DECA competition over the years and combines all of her skills and experiences to the students' benefit. This Center is indebted to Miss Olson for sharing her skills and knowledge in the preparation of this publication.

Jack E. Robertson, PhD
Director, Center for Occupational Curriculum Development

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L.M.O.

Competencies and Content
for *Financial Services Marketing*

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Adjust and adapt to new and unique ideas and situations.

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Assume responsibility for individual actions and/or department and company operations.
Accept constructive criticism and take appropriate corrective actions.
Maintain necessary endurance, forbearance, and persistence in order to accomplish goals and objectives.
Display appropriate sense of humor.
Budget time effectively by managing leisure, work, and home affairs in ways that enable individual goals to be achieved.
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Demonstrate appropriate social skills in relations with others.
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Midmanagement Level Only

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Influence of financial institutions such as the Federal Reserve system and commercial financial institutions (banks, savings and loans, credit unions, etc.) on the availability of credit and supply of money.
Effects of consumerism movement upon the economy, business, and the individual.

Establish and maintain credit and finance policies.
Analyze credit and financial trends by studying federal reports, analyses, and projections.
Analyze credit and financial operations using credit and financial guides and indexes.
Evaluate existing credit and financial policies and procedures and make changes or adjustments as needed.
Use credit and financial data to estimate degree of risk involved in extending credit, lending money to firms or individuals, or investing in a firm or industry.
Establish guidelines for approval of credit accounts.
Establish interest rate structure.

Analyze financial reports and records.
Study information affecting investment programs of individuals, trusts, and business and industry.
Analyze financial data from charts and graphs to determine current and long-term investment trends.
Analyze losses and adverse financial trends and suggest remedial measures.
Compile reports on status, value, and cost of handling accounts.
Study credit and investment data to estimate degree of risk involved in extending credit lending money, or suggesting investments to firms or individuals.

Establish and maintain security procedures.
Establish policies and procedures regarding security systems to control customers fraudulence.
Safeguard against forgeries, counterfeit money, bad checks, and altered checks.
Enforce policies and procedures to encourage payments from marginal accounts.
Provide for customer protection by enforcing credit and finance regulations that apply to opening of accounts, false or misleading statements, publication of prescribed credit and finance information, etc.

Assignment 1

Your Product and Its Importance

Objectives: *After completing this assignment you will be able to—*

- *Name the four major functions of banking.*
- *Discuss the importance of bank services to the economy.*
- *Tell how selling services differs from selling tangible products.*
- *Explain why every bank employee is a vital part of selling bank services.*
- *State three reasons why you should be familiar with the bank services offered.*

Sara Burns had just gotten her first job through the marketing and distributive education program in her high school. She was very excited the day she received her first paycheck.

"Now I won't have to depend on Mother and Daddy for my spending money." she thought. "I think I'll call Janie and see if she wants to go shopping tonight."

Janie was Sara's best friend and a second-year M&DE student. She agreed to meet Sara at the local shopping mall that evening. When the girls met, Sara proudly showed Janie her paycheck.

"I'm really excited to have my own money. Now I can spend it any way I want. I'm going to use this tonight to buy some new jeans and blouses," said Sara.

"Sara," said Janie, "you can't use that check to pay for your jeans. You'll have to cash it, and I doubt if the stores will do it, especially at night. Don't you have a bank account?"

Banks Provide Financial Services

Bank services—we take them for granted, but how necessary they are to our way of life! You, as a bank employee, provide the public with a safe, convenient way to transact financial business. A bank is a place where people can secure their money. Yet they can still have easy access to it when they need it. A bank is a place to get financial advice from experts. It's also a place to borrow extra money when it's needed.

These are the major services a bank offers. They are the bank's products: the *deposit function* for safekeeping funds, the *paying function* for easy access to funds, the *trust function* for advice on financial matters, and the *lending function* for access to monies for good causes and emergencies.

These financial services are a vitally important part of our world today. We live in an era of specialization. People need expert advice on matters of finance, just as they need it in scientific, medical, legal, educational, mechanical, or electrical matters. The body of knowledge in every discipline today is so vast that no one has time to acquire more than a little knowledge in each area. Therefore, a person must choose to concentrate and to gain expertise in one area. As human knowledge increases, so will specialization. People will need to rely more and more on experts in the fields in which they have limited knowledge.

Bankers are those people who have chosen to gain expertise in the *field of finance.* They can offer advice to people on the best ways to protect and increase their incomes. Or they can suggest ways for people to put their earnings to work for them, their families, or their companies.

Banks also provide the means of operation for our free enterprise economy. Without banks and bank services, where would businesses and individuals get the coin and currency used to transact their daily affairs? Commerce would grind to a standstill, or be severely restricted, if banks did not provide this flow of money.

Banks also create money for us by converting checks into coin and currency at the public's demand. Although the government, through the U.S. Treasury or that of other countries, mints the coins and prints a country's currency, banks have created the financial tool of the check. This mechanism makes all our monetary transactions easier. Think how much more complicated our lives would be if we had to handle all our financial affairs with cash! Banks are a vital part of our present economy. They serve as mediators between those consumers who want to put their income to work for them earning interest and those consumers who need extra funds for reasonable purposes and are willing to pay interest to get them.

Banks Are Businesses

All businesses offer something to the public and are involved in marketing. Banks are just as much businesses as are retail stores, gas stations, plumbers' and doctors' offices, or dry cleaners. Like the dry cleaner, the doctor, and the plumber, the banker has no tangible product to sell. Bankers sell their services and their knowledge. This is their product.

This kind of selling—selling something intangible—is in many ways similar to, and in some ways different from, selling a tangible product. With tangible products, you have a concrete item to show the customer. This is something the customer can see, hear, taste, touch, or smell. You can show all the features and benefits of the product to consumers. Then they can make a decision based on their needs and desires.

In selling banks' services, you have no concrete item to place before your customers. You must involve their intellect and help them to see the way your service can benefit them and meet their needs. What you have to offer is knowledge, experience, courtesy, and convenience. Banks' services are all much the same. One bank's money looks and functions like that of any other bank. What, then, causes a customer to select one bank rather than another? The people who staff it.

You, the bank employee, are the critical factor in every bank sale. The kindness, courtesy, and accuracy with which all employees perform their tasks are vital to the convenience, speed, and quality of customer transactions. These factors determine where a customer banks. All bank employees are, therefore, salespeople. Without your contribution, whether you work directly with the customer or not, the sale of the bank's services cannot be made.

As a bank employee, you should be familiar with all the types of services your bank offers. As soon as you tell someone you work in a bank, no matter what your responsibility is, the public sees you as a "financial expert." They will expect you to be able to inform them intelligently about the services your bank provides.

Also, as a banking trainee, a study of the entire banking system and its functions will enable you to select your career path wisely. Finally, you are also a consumer of banking services. A good knowledge of what is available will allow you to make an intelligent choice of those services that will benefit you most. The assignments that follow are designed to give you an overview of the organization and operation of commercial banking.

Questions

1. Why are bank services important to the economy?
2. How does selling bank services differ from selling tangible products?
3. Why are all bank employees salespeople?
4. What are three reasons you should be familiar with the types of services offered by your bank?

Assignment 2

The Banking System

Objectives: *After completing this assignment, you will be able to–*

- *Describe four forms of exchange.*
- *Name the three goals of the National Banking Act of 1864.*
- *Name the three federal agencies that regulate the banking industry.*
- *Explain the role of the four parts of the* ***Federal Reserve system.***
- *Describe the four functions of the Federal Reserve system.*
- *Explain the role of the* ***Federal Deposit Insurance Corporation.***
- *State the function of the* ***Comptroller of the Currency.***

Today's banking system rests solidly on one item—money. But just what is money? *Money is a medium of exchange.* It only has value when it functions this way. Since money is the foundation on which the banking industry rests, let's take a brief look at its history.

Early Forms of Exchange

People have had a need for some means of exchange almost from the dawn of history. As soon as there were two or more people in one place and one had something the other wanted, that person was faced with a choice. The person could take it by force, convince the other person or persons they didn't want it so they'd give it away, or find something they wanted and trade with them. So evolved our earliest civilized system of exchange—**bartering.** This is the trading of one item of value for another.

Bartering was acceptable for a number of years, but it did have certain drawbacks. First, it was difficult to find someone who had what you wanted and wanted what you had. A person often had to engage in several "deals" before being in a position to trade for the desired item. Second, even when you found someone who had what you wanted and wanted what you had, you both had to agree on the value of the items. Obviously, this system was somewhat unwieldy and needed improvement.

So, people then took certain items and set a specific value on them. And the entire community agreed on this value. These items were called **commodity money.** Examples were goods such as salt, fishhooks, cattle, gunpowder, and precious stones and metals. While commodity money resolved some of the difficulties of bartering, the items were not easily portable. So this system was not too practical.

To overcome this difficulty, a third form of money was developed, known as *representative money.* This was so called because it involved a "receipt" that represented items left on deposit with a person in the community who had a position of authority and respect, such as a minister or mayor. These people were then the first true bankers.

One receipt was issued for each item it represented. Therefore, this form of money had 100 percent backing. The person who was given the receipt as payment could then present it at any time and receive the item it represented.

Eventually, the "authorities" who were holding the items realized that not all the

receipts would be presented at the same time for payment. They then began issuing more receipts than there were items on deposit, on the promise of the items' delivery.

This became known as *credit money*, which is the money system most countries use today. The paper currency and coins we use are really receipts for the gold and silver on deposit with the government.

However, if everyone presented their money on the same day for payment in gold or silver, the demand could not be met. Because of this, a credit money system will only work if the people trust the government or authority issuing the currency.

The Beginning of Banking

The real birth of banking as we know it today began in the countries bordering the Mediterranean Sea. Because at that time most business involved travel, mainly sea travel, this was the natural place for banking to take root. All business was governed by laws directed and administered by the kings of these countries. There were no banks as we know them today. However, as we saw with the evolution of representative money, the trusted leaders of the community held the funds and issued receipts. And money lending was handled by the powerful families of the community.

The first country to issue gold and silver coins that were guaranteed at face value was Lydia and its king, Croesus. (Hence comes the expression "rich as Croesus.") This was a major step forward for the banking industry.

As trade and travel became more and more widespread, the need for banking on a worldwide basis increased. China was the first country to perform some of the functions of modern banking. It was the first to transfer funds for fees and to issue checks and certificates of deposit. This met the needs of travelers by relieving them of the necessity of carrying heavy bags of gold and silver coins. China's discovery of paper was perhaps "the single most important contribution to banking and commerce ever to appear in the history of man for it made possible the issuance of paper money, certificates of deposit, bills of exchange, and simplified records of all kinds that could be easily stored and transported."[1]

The banking systems on which modern American banking is based were those of France and England. Until the United States adopted a constitution, little banking was done since there was no sound system of currency. The real beginning of American banking was marked by the establishment of the Bank of North America in 1782 and the Banks of Massachusetts and New York in 1784.

The first Bank of the United States was chartered in 1791. It was the first bank to function as the fiscal agent for the government and to make loans to the treasury, as well as to private individuals. It was a highly effective bank but, strangely enough, the government refused to renew its charter. This happened chiefly because the public feared that too much monetary power was being lodged in one place.

It was not until 1816 that the Second Bank of the United States was established. After a few difficulties, this bank grew in power and influence. Once again, however, the unreasonable fears of the public that a monopoly would come to control the government and so create a monarchy caused it to suffer the same fate as its predecessor. It, too, was denied renewal of its charter.

This decision ushered in an era of widespread state banking. The practices of these banks were not always wise or sound, and a large number of them failed. Because each bank was issuing its own coins and notes, they were easily counterfeited. In fact, counterfeiting almost became a profession.

Despite all the questionable practices of this period, the banking industry grew and developed. In 1853, the first true clearinghouse for currency was established in New York. This prompted the formation of other clearinghouses. These became the

"backbone" of our current system of check collection.

A major step in banking history was the passage of the National Banking Act of 1864. This act established the first national banking system. Its three major goals were (1) to obtain a uniform currency, (2) to provide a market for government bonds, and (3) to improve banking conditions.

This act gave the banks permission to print national bank notes (paper currency) themselves. However, many notes were uniformly printed by the office of the Comptroller of the Currency in the U.S. Treasury Department.

The new act also required the national banks to keep cash reserves equal to 15 to 25 percent of their deposit and note liabilities. The act permitted regular commercial banking transactions, but did not allow loans secured by real estate or the bank's own stock. Nor were trust activities allowed.

The terms of the act also provided for the conversion of state banks to national banks. At first, this caused the number of state banks to decline. The fact that a national bank couldn't make real estate loans or handle trust activities, however, caused a new trend in state banking.

Although the National Banking Act greatly improved banking conditions, it had some major drawbacks. It was so strict that many banks had too little money in reserve. People began to lose confidence in them. The year 1907 saw a major panic by the public. This resulted in legislation in 1913 that established the U.S. Federal Reserve system, which is still used today.

The Federal Reserve System

The adoption of the Federal Reserve system moved banking rapidly forward. Now banks could operate cooperatively for the good of all since they were under a central management system.

The Federal Reserve system is one of three federal agencies that regulate the banking industry today. It is composed of 12 central banks, one for each of the 12 districts into which the system divides the United States. Each central bank performs a number of functions for all of the national banks and any state banks that join the system.

There are four major parts of the Federal Reserve system. First are the *12 central banks*, which operate as independent corporations chartered by the federal government. The national banks of each district buy stock in these Federal Reserve banks. Therefore, as stockholders, they are the owners. Unlike most corporations, the Federal Reserve system is a nonprofit operation.

The second part of the system is its *Board of Governors*. This board is composed of seven members appointed by the President for 14-year terms. These members supervise, regulate, and carry out the general monetary policy of the country.

The system's third part is known as the *Federal Open Market Committee*. This committee is the major tool through which the Federal Reserve tries to control the country's economy. Its task is to buy and sell government securities. Thus, it affects the amount of money in circulation.

The fourth and last part of the system is the *Federal Advisory Council*. This council consists of one outstanding local banker from each of the 12 districts that make up the system. These individuals function as a liaison between the Board of Governors and the local bank community. They advise the Board of Governors on bank policies and practices and on the nation's credit system.

The Federal Reserve system has four major functions. First, it serves as a "banker's bank" by collecting and clearing checks, granting cash advances (called *rediscounts*), holding deposits and securities, wiring money, and providing information on business and banking.

Second, the system also serves as the government's bank. It holds all the deposits for the U.S. Treasury. And it distributes the largest percentage of the country's paper currency and coin. It also buys and sells government securities.

Its third function is to supervise member banks. The Board of Governors sets monetary policy and ensures that member banks adhere to them. Thus, the Federal Reserve system guarantees sound and secure money and credit practices by its members.

Finally, the Federal Reserve system controls the country's money supply. Through its activities, it directly influences the economy: (1) It tells member banks the amount of money they must keep on deposit in reserves, called the *reserve requirement*. (2) It controls the rate of interest, called the *discount rate*, that it charges member banks when granting cash advances. (3) It buys and sells government securities. In all these ways, the Federal Reserve system can feed money into or pull money out of circulation.

Most Federal Reserve banks have branch offices located throughout their district. This gives member banks easy access to the system's services.

Federal Deposit Insurance Corporation

The second federal agency that regulates today's banking industry is the Federal Deposit Insurance Corporation (FDIC). The FDIC was created in 1933 as a result of the depression of the 1930s. Many banks were failing during this period. And the federal government thought it necessary to take steps so that such widespread failure and loss of public confidence in banks could never reoccur.

Legislation was passed which established the FDIC, and all members of the Federal Reserve system were required to join. Initially, it was intended that only federal members would be granted insurance. However, the state banking lobbies opposed this. And eventually they too were granted deposit insurance. Today, all banks that belong to the FDIC insure each account up to $100,000.

Comptroller of the Currency

The final federal regulator of national banks is the U.S. Comptroller of the Currency. This office was created in 1864 by the National Banking Act as a part of the U.S. Treasury Department. The function of the Comptroller of the Currency is to review applications and grant charters for all national banks. Once chartered, the office of the Comptroller of the Currency supervises these banks' practices and examines each bank at least twice a year.

Questions

1. Name and describe four early forms of exchange.
2. What were the three goals of the National Banking Act of 1864?
3. Describe the four parts of the Federal Reserve system.
4. What three federal agencies control the banking industry?
5. What are the four major functions of the Federal Reserve system?
6. What is the role of the Federal Deposit Insurance Corporation?
7. What is the function of the Comptroller of the Currency?

Project

Briefly trace the history of the Federal Reserve system in a short, written report.

Assignment 3

The Structure of Banking

Objectives: *After completing this assignment, you will be able to–*

- *Define the term* ***charter.***
- *Explain what is meant by a dual banking system.*
- *List the six ways a bank may be classified.*
- *Explain what is meant by a NOW account.*
- *Explain the difference between unit banks and branch banks.*
- *Describe the function of a correspondent bank.*
- *Name the five areas of primary concern to the international banking division.*

Mary Lee Anderson was talking with her friend Charlotte Mason. Both girls were enrolled in the specialized M&DE financial marketing class at Adams High School.

"Charlotte," said Mary Lee, "you wouldn't believe how big First National Bank is. I'd never been in the main building until yesterday when I went for my job interview. I had no idea they had so many divisions and departments."

"I know what you mean," replied Charlotte. "I had to go into the lobby with my Dad once when he needed to get some papers from his safety-deposit box. We had to go through a lot of different departments to get to the area where the safety-deposit boxes are kept. I even saw one door that said 'International Department.' What do you suppose they do in there?"

"I don't know. My job is in customer service. Did you get the teller's job at Southern State you interviewed for?"

"Yes. Southern isn't quite as big as First National, but it seems to have almost as many departments. You know, I never thought about it before, but I wonder why Southern is called a *state* bank and First is called a *national*.

"I don't know the answer to that one, either. I guess Miss Newton will tell us in our class."

External Structure: Classification of Banks

As the two girls noted, banks are made up of a number of divisions and departments. The actual type of organization and form a bank uses can vary in several ways. There are six major methods for classifying all banks. Every bank has some or all of these characteristics.

By Type of Charter

Since all banks are corporations, they must be chartered. A *charter* is a document that sets down the rules by which a business operates. It also grants permission for its operation. The first method of bank operation deals with the source of the bank's charter. And it answers Charlotte's question about the difference between state banks and national banks.

The United States is unique because it has a *dual banking system*. This means that banks may be chartered by either the federal government or the state government. *National banks* receive their charters from the Comptroller of the Currency in the U. S. Department of the Treasury. *State banks* receive their charters from the local state banking authority.

By Membership in the Federal Reserve System

The second way banks may be classified is by their decision to join, or not join, the Federal Reserve system. All national banks must belong, but states banks have a choice. Many state banks prefer the freedom and privileges they have under state rather than national supervision. Thus they do not become members of the Federal Reserve system. Many do, however, keep an account at the Federal Reserve in order to have access to its check-clearing facilities and other services.

By Membership in the FDIC

Banks may also be classed by their membership, or lack of it, in the Federal Deposit Insurance Corporation. As with the Federal Reserve system, all national banks must be members, but state banks join on an elective basis.

By Type of Deposits

Yet another method of classification is by the type of deposits a bank accepts. Commercial banks accept savings deposits, offer loan services, and also provide demand deposits, commonly called checking accounts. Savings banks only offer savings and loan services.

Recent legislation, however, has made savings banks more competitive with commercial banks. This has come with the introduction of a new type of account known as NOW accounts. NOW stands for *Negotiable Order of Withdrawal*. (*Negotiable* means "capable of being converted into cash or the equivalent value.") NOW accounts operate in much the same manner as a checking account, but a minimum balance must be maintained. The banks also pay the depositor interest on these funds as they do on savings accounts.

By Type of Organization

The organizational form a bank chooses is another way to classify it. Commercial banks are divided into two categories—unit banks or branch banks.

Unit banks have a single location where all bank services are provided. *Branch banks* use several locations and offer complete services at each office.

By Method of Operation

The final way to classify banks is according to their method of operation and type of ownership. *Chain banking* involves a number of individual banks in which the majority of the stock is owned by two or more individuals.

Group banking joins individual banks or financial institutions through corporate ownership of the majority of their stock. This corporate ownership is effected by means of holding companies.

Last, *individual independent unit banking* is a form that has no interlocking ownership with any other financial institution.

The Correspondent Banking System

A separate system that operates in conjunction with chain, group, or independent unit banking is that of *correspondent banking*. This system is based on an agreement between banks worldwide by which a larger bank performs certain services, such as clearing of checks, for a smaller bank. These services are performed on a fee basis. Many times, a bank that serves as a correspondent for a smaller bank has its own correspondent in a larger financial center or in another country.

Internal Bank Structure

We've examined the external structure of the banking industry. Now let's look at the internal structure of a bank. While each bank's internal structure will have its own

unique features, certain basic divisions are used universally.

Most commercial banks have at least two major divisions—the personal banking division and the commercial banking division. All banks will also have some type of overall administrative division. Then, too, many larger banks have a fourth division known as the international banking division. Assignment 4 will examine in detail the functions of the personal and commercial banking divisions.

Essentially, the *personal banking division* provides deposit, paying, lending, and investment services to individual customers. The *commercial banking division* provides these same services for businesses, corporations, and professionals, such as physicians and attorneys. This division also provides some special services for businesses, such as cash management and lockbox facilities.

The *international banking division* is one that deals with people of many countries who need to move products or money from one part of the world to another. This division handles documents such as letters of credit. These letters finance the shipment of import and export goods from foreign countries to the United States or vice versa.

The international division also provides services for individuals, such as allowing travelers to collect money from a foreign bank if needed before they return to the United States. This division also handles the conversion of dollars into various foreign currencies, such as French francs or Japanese yen.

The bankers in the international division participate in the *foreign exchange market*. This is a market similar to the stock market. However, instead of buying and selling stock in companies, trading is done in various currencies.

International bankers also work in the *international money market*. Here, corporations, individuals, and governments deal in lending policies similar to those of the domestic money market, but they do so in foreign currencies.

Thus, foreign bankers place deposits in U.S. banks or borrow from them. And U. S. bankers place American dollars on deposit abroad and may borrow from overseas as well. Fewer currencies operate in the international money market than in the foreign exchange market because of certain restrictions on the types and amounts of currencies that can be taken on deposit or placed as loans.

Questions

1. Define *charter*.
2. What is meant by a *dual banking system*?
3. List the six ways banks may be classified.
4. What is a *NOW account*?
5. What is the difference between *unit banks* and *branch banks*?
6. What is the function of a *correspondent bank*?
7. What five areas are of primary concern to the international banking division?

Project

Draw both an internal and external organization chart for your training station. If you are a PEL student, choose a local bank and obtain the necessary information to draw these charts. You should include (1) form of organization, (2) method of operation, and (3) whether or not it is a correspondent bank for someone or uses a correspondent bank's services. The names of the various correspondents, if any, should be cited.

The internal chart should show all major divisions within your selected bank.

Assignment 4

Banking Operations

Objectives: *After completing this assignment, you will be able to–*

- *Name the four major functions of banking.*
- *Cite the two major types of* ***deposit accounts*** *and how they differ.*
- *Explain the difference between* ***savings*** *and* ***investment time deposits.***
- *Tell why* ***Regulation Q*** *is important, and give its two major purposes.*
- *List and explain four types of* ***savings accounts.***
- *Describe* ***NOW accounts.***
- *Name three types of* ***investment deposits.***
- *Tell who can qualify as owners of* ***demand deposit accounts.***
- *Define the terms "redlining," "signature card," "teller machine," "teller stamp," "cash in," and "cash out."*

Overview of Banking Functions

Today's commercial banks might be called the supermarkets of the finance industry. They offer customers a wide range of services to meet their monetary needs.

All commercial banks perform four major functions for their customers: (1) deposit (receiving), (2) paying, (3) lending, and (4) trust. These four functions are offered in both the personal and commercial banking divisions. A number of services are offered along with each of these functions.

The **deposit function** is handled by the *paying and receiving teller.* Most of us are familiar with the deposit function. This is the original function from which banking evolved. It involves the holding of a customer's money for safekeeping, both as time deposits and as demand deposits.

The **paying function** allows customers to withdraw all or a portion of their funds being held in either time or demand deposit accounts. This function is also handled by the paying and receiving teller.

The **lending function** offers both individual and corporate customers the option of borrowing money. Money is loaned for a number of different needs, provided the applicant meets the bank's set criteria.

The **trust function** provides many services. The major services offered to individual consumers, normally called *retail customers,* include setting up of *guardianships* of funds for minors. This activity is usually associated with the term *trust.* Other services performed by the trust division for retail customers are *investment planning, administration* of those plans, *financial counseling,* and *estate planning.* These plans also must be carried out and monitored.

Corporate trust customers may need help in planning investments for their companies or in setting up pension or profit-sharing plans for their employees. These are just some of the services that a commercial bank's trust division can offer.

In this and later assignments, we'll look at each of these functions in more detail. The deposit and paying functions are closely

related. Since both are handled chiefly by the paying and receiving teller, they will be discussed together.

Types of Deposit Accounts

There are two major types of deposit accounts available to both commercial and personal banking customers. These are *time deposits* and *demand deposits*. First, let's discuss time deposits. Demand deposits will be examined later.

Time Deposits

Funds placed in time deposits will usually be held for a specific time period. They require some type of notice prior to withdrawal. The customer doesn't need these funds to cover current expenses or to use them for a period of time.

Actually, such time deposits can be further classed as *savings deposits* and *investment deposits*. In a "savings" deposit, funds usually accumulate from one's income over a period of time. Investment deposits are usually made as a single large deposit placed in a special type of account.

A number of different types of time deposit accounts exist. Most banks offer some or all of them. Banks may also offer special regular savings accounts under names such as Golden, Silver, or Anniversary accounts and connect special benefits to them. Savings accounts are the only type of time deposit the paying and receiving teller will ever handle.

Savings Accounts

Regular savings accounts are those maintained by individuals or qualified organizations who are setting aside a portion of their income for emergencies or special purposes. Like all other time deposits, savings accounts must be covered by an agreement between the bank and the customer. This agreement must set forth the conditions under which the deposit is to be accepted. Generally, a standard written agreement is given to the depositor at the time the account is opened.

There are four major types of savings accounts: *passbook*, *no passbook*, *club*, and *time deposit open* accounts. The *passbook account* was the first type offered by most banks. It featured a small book in which each customer's deposits and withdrawals were posted in the teller's handwriting. This was the only way customers could keep an accurate record of their accounts. No machines were available for posting, so there were no mechanical records.

Then posting machines became commonplace in most banks and were used to prepare their records. It was easier to simply send the customer a copy of this record. This copy is known as a "statement." This saved time for tellers and got rid of the need for passbooks.

Many banks still offer passbook accounts since some customers still prefer them. However, the most common type of regular savings accounts today are known as *no passbook statement accounts*. For this type of account, the customer receives a periodic statement showing all debits, credits, and the resulting balances.

The third type of savings account is known as the *club account*. Customers establish these accounts to save for a special objective. The most commonly known and offered club accounts are the Christmas Club or Vacation Club accounts. Customers deposit a certain amount each week or month for a set period of time until they have saved enough for their vacation or Christmas presents.

The final type of savings account is known as a *time deposit open* account. It is available to any class of depositors. This includes profit-making corporations, even though they may not use regular savings accounts. The purpose of time deposit open accounts is to allow anyone with a large sum of money available for a short period of time to invest it at higher interest rates than a regular savings account yields. These funds must be held for a minimum of 30 days. A specific maturity date may be set at the time of the deposit or if the depositor presents 30 days written notice of withdrawal.

NOW Accounts

One new type of savings account, briefly mentioned in Assignment 3, is a separate type of savings account. It is called a NOW account. (Remember that NOW stands for *negotiable order of withdrawal.*) These are special savings accounts that require a minimum balance to be maintained.

When this condition is met, the depositor can write drafts against the funds in this account and transfer them directly to a third party. This works much like a check does from a demand deposit account. As long as the minimum balance is kept, these accounts will still earn a specific rate of interest, just as regular savings accounts do. The minimum required balance will vary from one financial institution to another.

This type of account was made legal in most states through 1980 legislation. Its passage, as mentioned in Assignment 3, has made savings and loans and credit unions much more competitive with commercial banks.

Investment Deposits

The other type of time deposit is known as an *investment account.* Investment accounts will rarely be handled by paying and receiving tellers. But these tellers should have an understanding of them and be able to offer them to customers.

One type of investment account is the *savings certificate of deposit.* These certificates differ from the more commonly known time certificates of deposit. They are issued in much smaller denominations and are usually not negotiable. Each depositor who buys a certificate receives that certificate as a receipt. The terms of the deposit are usually printed on the certificate. They usually don't mature in a period of less than 90 days. Unlike regular savings accounts, investment deposits will have no deposits or withdrawals. The depositor's objective is to earn the maximum amount of interest in the minimum amount of time.

A second investment account is the *discount savings bond.* Like savings certificates, the conditions of purchase are printed on the face of the bond. But unlike them, the amount printed on the certificate is the purchase price, not the redeemable value.

Time certificates of deposit (CDs) are a third type of investment account. Much like the savings certificates, a depositor buys a time CD for a certain amount of money. This money is then held for a period varying from 90 days to several years. These certificates are usually held for longer periods of time. And they are always for greater amounts of money than savings certificates. Thus they yield a higher rate of interest. Time CDs are sold for a set amount, usually $10,000 or greater. They yield a certain percentage of interest upon maturity. This percentage changes with the current money market rate.

Time CDs are popular because they are easily negotiable. They may be sold to another party at any time for their face value, plus interest for the time invested at the current money market rate. Thus they are exempt from Regulation Q. (Material on this regulation follows in the next section.)

Sometimes, time CDs may be renewed at maturity and held for an extra period of time. If they are not renewed at maturity, all time CDs immediately convert to demand deposit funds. And no further interest is paid on them.

By the mandate of Regulation Q, time CDs may not be cashed in before their maturity date. However, the regulation has been amended to allow for emergencies. If someone needs to cash in a CD prior to its maturity date, they may do so. But they must pay a penalty. If sold, the depositor forfeits six months of interest, whether paid or unpaid. Each depositor receives a written copy of these conditions at the time she or he buys the certificate.

Regulation Q

Many bank customers are unaware that, legally, all banks may require written notice 30 days prior to withdrawal of not only investment-type savings but also regular

savings account funds. Most banks, however, do not enforce this requirement on regular savings accounts.

The reason banks have the legal right to this notice is that they pay interest on these funds. Thus they can count on holding the funds for a long enough time period to allow them to loan these funds to other customers. Since most regular savings accounts do not involve great amounts of funds, the banks rarely enforce the written notice of the withdrawal requirement. Some banks may, however, partially enforce this rule. They may require written notice for withdrawing amounts over a certain limit, such as $1,000 or $1,500.

This requirement is part of a major mandate known as **Regulation Q.** The basic restrictions on all types of savings and investment accounts stem from Section 19 of the Federal Reserve Act. This act regulates the payment of interest and the amount of interest to be paid. It also controls the types of advertising and ways in which time deposit accounts may be secured.

Regulation Q was devised for two major reasons. Its first purpose was to distinguish between savings accounts and investment-type deposits. By making the restrictions less stringent on these smaller savings deposits, it hoped to encourage deposits motivated by thrift. Its second purpose was to protect time deposit contracts by imposing strict restrictions on large depositors whose motivation was to gain the maximum return on their short-term investment.

Besides distinguishing savings accounts from time deposits, Regulation Q states the types of customers who are eligible to open savings accounts. No profit-making organization is allowed to maintain a savings account. Only if an organization has specific identifiable persons as participants or *beneficiaries*, or is formed for religious, educational, charitable, philanthropic, or fraternal purposes, may it open and maintain a savings account. Other eligible savings account owners are individuals, two or more persons jointly, or someone appointed to act for another. Such a person is known as a *fiduciary*.

Demand Deposit Accounts

Demand Deposit Accounts (DDAs) are the second category of major types of deposits. They are commonly called checking accounts. But they qualify for the more accurate term "demand deposit." This is because the funds held in them must be released to the customer on demand with no written notice required. By mandate of Regulation Q, no interest may be paid on any funds in a demand deposit account. These funds are held by the bank for safekeeping. They are generally used by depositors to pay for their daily needs and ongoing expenses.

DDAs may be owned by any number of classes of persons or groups. An individual; two or more persons jointly; one person acting for another, such as a minor or incompetent, known as a fiduciary; a person doing business as a company; a corporation; a partnership; or two or more businesses working on a mutual project, known as a *joint venture*, may own a checking account. Clubs, social groups, and unincorporated associations may also own DDAs.

Banking Functions

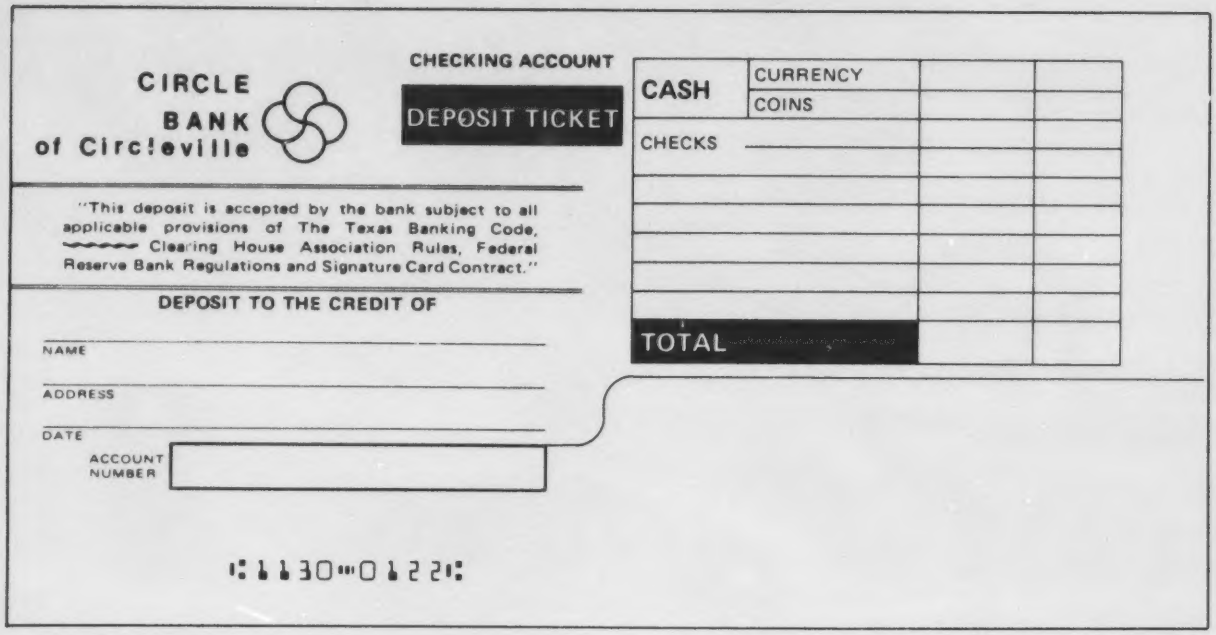
The Deposit Function—Teller Operations

The deposit function is first handled by the paying and receiving teller. Each teller must perform several specific steps.

When customers wish to place money in either their savings or checking account, they must first complete a form called a *deposit slip* (see fig. 1).

On this slip, the customer must list his or her name, as it is shown on the account, the address, the account number, and the current date. Then the total amount of coin and currency must be shown, and each check must be individually listed. The entire amount of the deposit must then be totaled.

When the teller accepts this deposit, the amounts of coin and currency must be checked for accuracy. The checks must also be verified for acceptability and accuracy. Many banks require their tellers to put a red


CIRCLE
BANK
of Circleville
CHECKING ACCOUNT
DEPOSIT TICKET
"This deposit is accepted by the bank subject to all applicable provisions of The Texas Banking Code, Clearing House Association Rules, Federal Reserve Bank Regulations and Signature Card Contract."
DEPOSIT TO THE CREDIT OF
NAME
ADDRESS
DATE
ACCOUNT NUMBER
CASH
CURRENCY
COINS
CHECKS
TOTAL
⑆113O⑈0122⑆

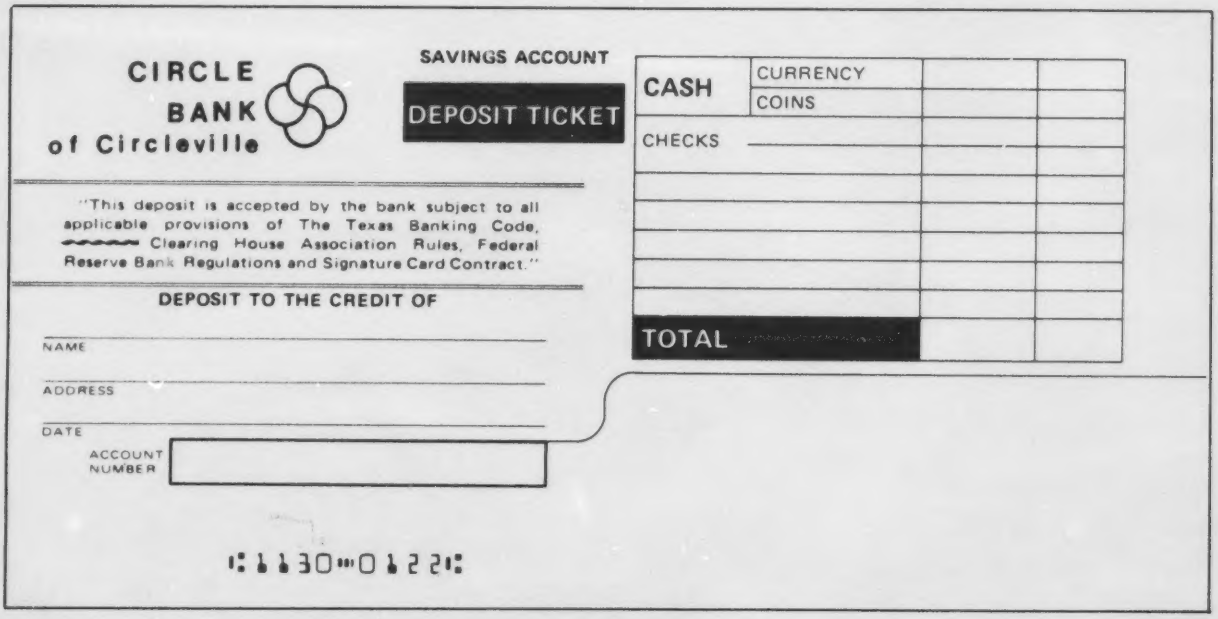

CIRCLE
BANK
of Circleville
SAVINGS ACCOUNT
DEPOSIT TICKET
"This deposit is accepted by the bank subject to all applicable provisions of The Texas Banking Code, Clearing House Association Rules, Federal Reserve Bank Regulations and Signature Card Contract."
DEPOSIT TO THE CREDIT OF
NAME
ADDRESS
DATE
ACCOUNT NUMBER
CASH
CURRENCY
COINS
CHECKS
TOTAL
⑆113O⑈0122⑆

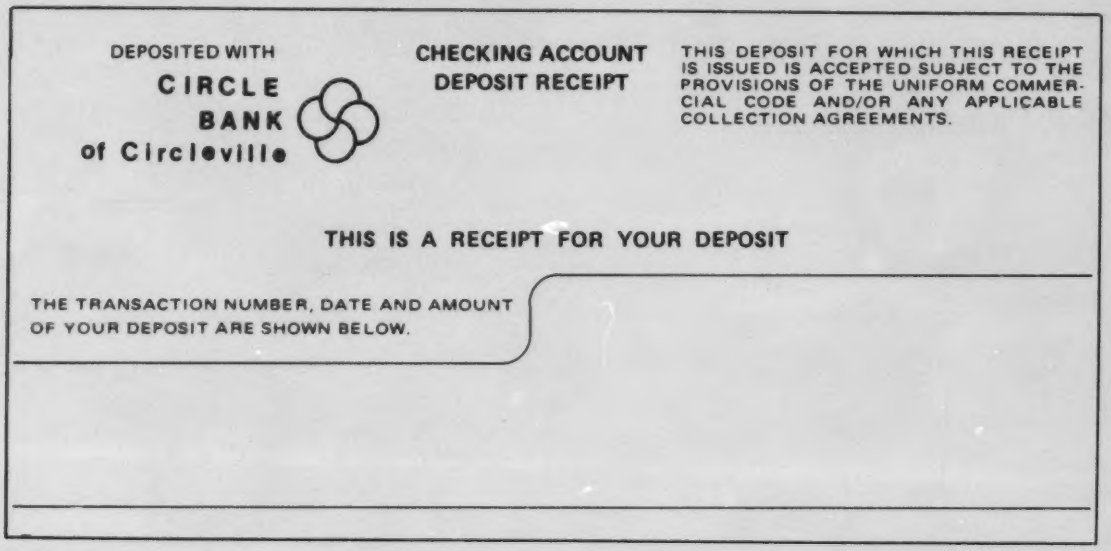
FIGURE 1

check by each amount as it is verified. This procedure is known as *redlining*.

Once this is done, the amount totals are checked, usually by entering them in a special machine known as a "teller machine." This piece of equipment works much like a calculator. However, it also prints a receipt for the customer that shows the date, amount, and type of deposit. Some machines show only the day and amount of the deposit. And different forms are used for each type of deposit—i.e., savings or checking (see fig. 2).

Sometimes the receipt is a stamped copy of the deposit slip. This stamp may be the machine validation or a hand stamp known as the "teller's stamp." It has the teller's number or initials and the date. It is used by the teller to show that she or he has accepted the deposit.

As this is being done, the teller must also prepare a form known as a *cash-in slip* or ticket (see fig. 3). Using the teller machine, the teller enters the total amount of the deposit accepted on the cash-in ticket. This ticket is then placed with the deposit slip


DEPOSITED WITH
CIRCLE BANK of Circleville
CHECKING ACCOUNT DEPOSIT RECEIPT
THIS DEPOSIT FOR WHICH THIS RECEIPT IS ISSUED IS ACCEPTED SUBJECT TO THE PROVISIONS OF THE UNIFORM COMMERCIAL CODE AND/OR ANY APPLICABLE COLLECTION AGREEMENTS.
THIS IS A RECEIPT FOR YOUR DEPOSIT
THE TRANSACTION NUMBER, DATE AND AMOUNT OF YOUR DEPOSIT ARE SHOWN BELOW.

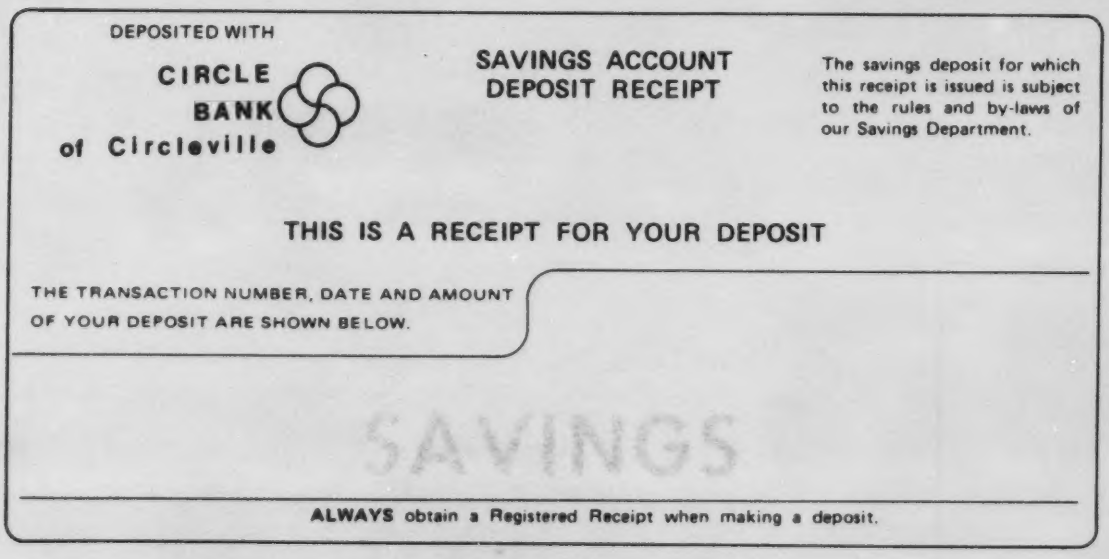

DEPOSITED WITH
CIRCLE BANK of Circleville
SAVINGS ACCOUNT DEPOSIT RECEIPT
The savings deposit for which this receipt is issued is subject to the rules and by-laws of our Savings Department.
THIS IS A RECEIPT FOR YOUR DEPOSIT
THE TRANSACTION NUMBER, DATE AND AMOUNT OF YOUR DEPOSIT ARE SHOWN BELOW.
SAVINGS
ALWAYS obtain a Registered Receipt when making a deposit.

FIGURE 2. SAMPLE DEPOSITS RECEIPTS

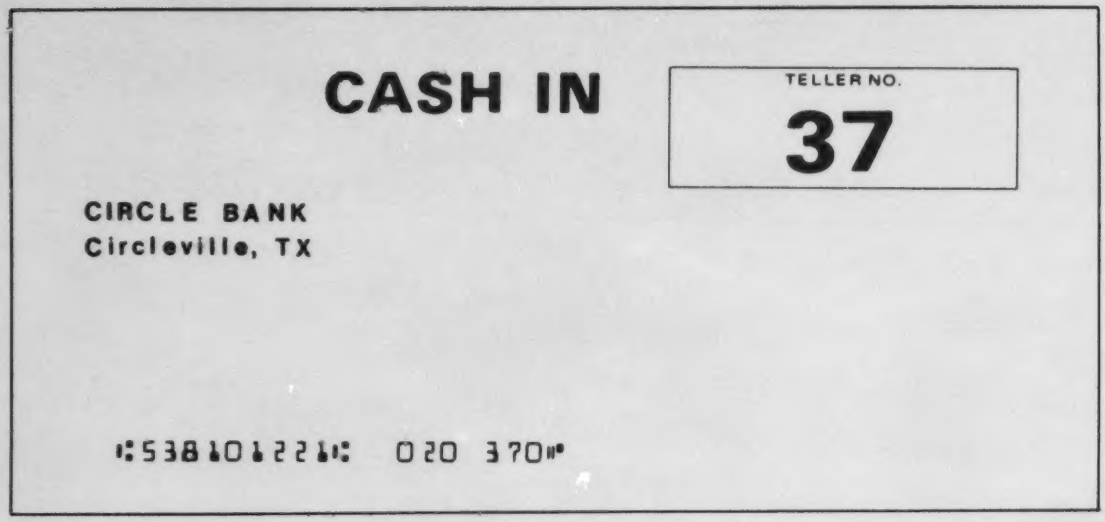


FIGURE 3

and checks, if any, to be sent to the proof department. The cash (coin and currency) is placed in the teller's drawer, which must balance at the end of the day. These steps are followed whether the account is a personal or a commercial one.

The Paying Function—Teller Operations

A customer may wish to withdraw funds rather than deposit money to an account. As with receiving funds, the bank teller must follow specific steps.

The customer may complete a withdrawal slip to secure money from his savings account or checking account. Or he or she may write a check or withdrawal slip to gain access to these funds (see fig. 4). The customer then presents the check or completed withdrawal slip to the teller for payment.

At this point, the teller inspects these documents for completeness and accuracy. The teller should be alert and look for a number of things.

On cash or savings withdrawals, most banks require that the signature be verified with the signature card which is kept on file. Of course, if the teller knows the customer, this is unnecessary. The signature card is a form completed by the customer when opening an account. It is used by the bank any time a signature needs to be verified (see fig. 5).

If the customer presents a check for payment, the teller has several things other than the signature that must be verified. First, he or she must be sure the check is "good." This means that it will be honored by the bank on which it is drawn. The following questions about a check must be answered before paying it:

1. Does it have an acceptable date?
2. Does the maker have enough funds in his or her account to cover the check?
3. If the customer is not the maker of the check, but the payee, and the check is drawn on another bank, does his or her account have a sufficient balance to cover the check if it is dishonored?
4. Is the maker's signature genuine and authorized?
5. Are there any kinds of restraints or special conditions on the check?

The teller must be able to answer all these questions acceptably. Then if the identity of the *payee* (person to whom the check is made), if it is not the bank, can be proven, the check may be paid.

The teller must then use the teller machine to prepare a form known as a *cash-out slip* or

CIRCLE BANK of Circleville

CASH WITHDRAWAL

DATE _____ $ _____

CHARGE MY CHECKING ACCOUNT

_____ DOLLARS

RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED

ACCOUNT NUMBER

_____
SIGNATURE

_____
ADDRESS

_____ ☐ THIS IS A NEW ADDRESS

⑈1130⑈0122⑈

CIRCLE BANK of Circleville

SAVINGS WITHDRAWAL

WITHDRAWALS ARE PERMITTED ONLY THROUGH PAYMENT TO THE DEPOSITOR HIMSELF

DATE _____ $ _____

_____ DOLLARS

ACCOUNT NUMBER

_____
SIGNATURE

_____
ADDRESS

_____ ☐ THIS IS A NEW ADDRESS

⑈1130⑈0122⑈

SAVINGS WITHDRAWAL RECORD

CIRCLE BANK of Circleville

Withdrawals are permitted only through payment to the depositor himself.
The savings withdrawal for which this record is issued is
subject to the rules and bylaws of our Savings Department.

▶ The Transaction Number, Date and Amount of Your Withdrawal Are Shown Below

SAVINGS

▶ ALWAYS obtain a Registered Record when withdrawing funds.

FIGURE 4. WITHDRAWAL SLIPS

TEMPORARY CARD

ACCOUNT NUMBER _____

THE DEPOSITOR AGREES THAT THIS ACCOUNT IS SUBJECT TO ALL THE PROVISIONS STATED ON THE PERMANENT SIGNATURE CARD NOW USED BY THIS BANK IN CONNECTION WITH THE TYPE OF ACCOUNT CHECKED ON THE RIGHT MARGIN HEREOF, ALL OF WHICH PROVISIONS ARE MADE A PART HEREOF AND INCORPORATED HEREIN BY REFERENCE.

JT _____
IND _____
PART _____
CORP. OR ASSN. _____
TRADE _____
SAV. _____

Sig. _____

Sig. _____

Home Address _____ Home Phone: _____

Business Address _____ Business Phone: _____

Introduced by _____

Reference: _____

Business Occupation _____

Previous Banking Connections _____

Other Present Banking Connections: _____

Statements to: (Circle One)
1. Residence 2. Business 3. Hold

BY _____
CHECKS _____
CASH _____

DATE A/C OPENED

CIRCLE BANK of Circleville, TX

Regular Checking Account

_____ Account No. _____

The above named party(ies) hereinafter collectively referred to as "Depositor," whether one or more) by signing this card hereby opens a checking account with ~~~~~~~~~~ ("Bank"), subject to the applicable rules and regulations of Bank and the terms and conditions appearing on the reverse side hereof.

Signature _____

Signature _____

Residence Address _____ Phone _____

Business Address _____ Phone _____

Occupation: _____ SS or Tx. ID # _____

Introduced by _____ Account Accepted By _____ Date Opened: _____

Initial Deposit: $ _____ Statement To: (Circle one) Residence Business Hold

Reference _____

Signature of Agent(s) _____

(1) (2)

TYPE OF ACCOUNT

☐ Individual ☐ Joint / Survivorship ☐ Sole Proprietorship (Trade name)
☐ Agency ☐ Counter signature of Depositor necessary for withdrawals by Agent(s) in excess of $ _____

FIGURE 5. SIGNATURE CARDS

ticket (see fig. 6). This form is placed with the check to be sent to the proof department at the end of the day. The coin and currency is counted twice—once as it is being taken from the drawer, and once as it is handed to the customer. The cash-out slip is used by the teller to balance the cash drawer at the close of the day.

As with the deposit function, these steps are followed whether the check is paid on a personal or on a commercial account.

At the end of the day, each paying and receiving teller must balance all the monies they have received or paid out during the day. This is done on a form known as the *Teller's Balance Sheet* (see fig. 7). On it, tellers list all loose and damaged currency, vault currency (that received from the vault with the "strap" unbroken), loose and vault silver (still in coin wrappers), and their bait money (which has its serial numbers recorded and is to be given out in the event of a robbery).

The entire cash amount is totaled and recorded. This total is adjusted for any work done after the initial balance is computed. The teller also computes the total amount of cash-out and cash-in slips. These two amounts should balance once the vault cash is deducted.

This figure is called the *cash forward* amount. The teller opens with this amount the next day. There is also a place to list the amount a teller may be *over* or *short*. This is in case, for some reason, he or she does not balance out. There is also a section for any comments the teller wishes to make, and his or her signature, teller number, and the date.

These records are kept for a period of time on each teller. The out-of-balance amount is kept as a running total. This is called the teller's *suspense record*. Good tellers will have very low suspense figures.

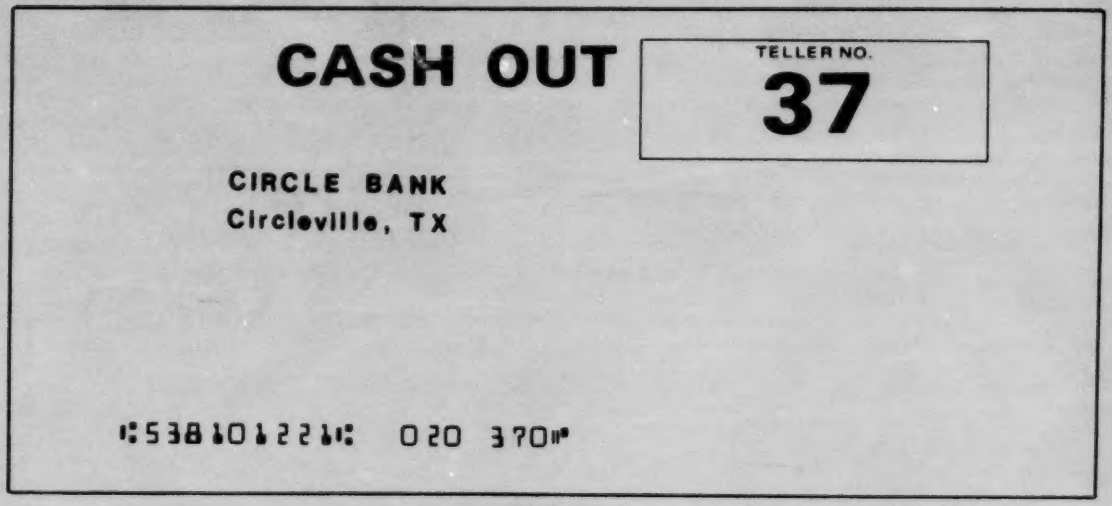


FIGURE 6

Questions

1. Name four major functions of banking.
2. What are the two major types of *deposit accounts*? Briefly tell how they differ.
3. Explain the difference between *savings* and *investment time deposits*.
4. Why is *Regulation Q* important? Give its two major purposes.
5. List and explain four types of *savings accounts*.
6. What are three types of *investment accounts*?
7. Who can qualify as an owner of a *demand deposit account*?
8. Define "redlining," "signature card," "teller machine," "teller stamp," "cash out," and "cash in."

CURRENCY	AMOUNT
Loose Currency	
100's	
50's	
20's	
10's	
5's	
2's	
1's	
Bait	
Mutilated Curr.	
100's	
50's	
20's	
10's	
5's	
2's	
1's	
Vault Curr.	
100's	
50's	
20's	
10's	
5's	
2's	
1's	

SILVER	AMOUNT
Loose Silver	
Silver in Tray	
Dollars	
Halves	
Quarters	
Dimes	
Nickels	
Pennies	
Silver in Vault	
Dollars	
Halves	
Quarters	
Dimes	
Nickels	
Pennies	
Coin Bags	
TOTAL CASH	

TOTAL CASH				
LATE WORK/CASH IN	–			
LATE WORK/CASH OUT	+			
CASH-TODAY				
CASH OUT	+			
CASH IN	–			
CASH FORWARD				
OVER OR SHORT				

Remarks:

_____

_____

_____

_____
TELLER

Date _____

_____ TELLER # 34

FIGURE 7. TELLER BALANCE SHEET

Assignment 5

Support Services for the Paying and Receiving Functions

Objectives: *After completing this assignment, you will be able to—*

- *List and explain the need for the twofold task of the* ***proof department.***
- *Name two methods for proofing deposits.*
- *Explain the tasks performed by the* ***transit department.***
- *List the three categories of* ***sorted checks.***
- *Give the four ways checks may be presented for payment.*
- *State the two main services* ***data processing*** *provides for the paying and receiving function.*
- *Briefly discuss the functions of the* ***return items and exceptions departments.***
- *Cite the threefold responsibility of the* ***bookkeeping department.***
- *Describe the services provided by the* ***coin and currency vault.***
- Explain the terms "batch," "proof of deposit," "zero-out proof," "collections," "clearing," "cash letter," and "holds."

Charlotte and Mary Lee were discussing their M&DE jobs at First National and Southern State banks.

"Mary Lee," asked Charlotte, "what happens to the checks you cash and accept for deposit all day? I know they are sent to the proof department. But what do they do with them?"

"Gee, Charlotte," Mary Lee responded, "I'm not sure. I guess I just worry about getting the work up there on time. I know they talk about having to have our work in time to make "runs" to the Federal Reserve system and the clearinghouse. Why don't we ask Miss Newton in class tomorrow?"

Many areas support the deposit and paying functions. The function is not completed at the teller's window. In fact, it has just begun. Once the checks have been paid or accepted for deposit, they must move through a number of processes before they are returned to the maker in his or her monthly account statement. This assignment examines some of these processes and the support areas that perform them.

The Proof Department

Once checks leave the teller's window, they are taken to the area known as the proof department. The task of this department is twofold: "(1) to verify the total deposit; and (2) to establish control totals for the several departments responsible for handling specific kinds of items."[1]

When a teller accepts deposits, he or she assumes that the total amount of each deposit as calculated by the depositor is correct. These amounts must be verified, however, before the account is credited.

This is the first task of the proof department.

The second function, establishing control totals, is vitally important to achieving and maintaining settlement of accounts. Literally thousands of individual items come through a bank each day. Special methods have been developed to keep track of all these pieces of paper.

Batch Proofing

As all the individual checks arrive in the proof department, they are divided into groups called *batches*. Each batch usually consists of 200-300 items. Rather than keeping each group of checks in the order in which they appear on the deposit slips and totaling each deposit slip, the checks are immediately intermingled into these batches. Then each batch is totaled. The totals from each of the batches are then added into a grand total, known as a *control total*. This control total is then compared with a listing of all the deposit slip totals, which is called a *recap*. It is assumed that if the control total and the recap total balance, the totals of each deposit slip must be correct. Any one set of figures should yield the same total regardless of the order in which it is computed. This method of proofing totals saves a great deal of time. It eliminates the lengthy process of totaling individual deposit slips.

As each batch is totaled, it is then given to an individual, usually called a *proof operator*. This person uses a *proof machine* or *encoder*. This machine records the amount of the check in special magnetic ink on the bottom of the check.

Sometimes a check has become torn or damaged in some way. Then the special MICR numbers that show the Federal Reserve district and its branch office, the bank drawee number, the credit status of the item at the Federal Reserve district, and the drawer's account number are unreadable by the electronic sorting machine.

Then a special machine called a *stripper* is used. This machine applies to a strip of white tape to the bottom of the check. It is then given to the proof operator who encodes them on the strip.

If a check is so badly damaged that it cannot go through the electronic reader-sorter, a special envelope known as a *carrier* is used to enclose the document. This allows the check to go through the sorter to be read and processed for transit to the drawee bank (see fig. 1).

Once the batches are encoded with their amounts, each item is filmed both back and front and endorsed on the back. This ensures that there is a record of every check handled by the bank. This record will support any claims for payment. It also provides a permanent record for the bank's customers if they need to have a copy of a lost check. These records are kept on microfilm. This process allows great amounts of information to be kept on a tiny piece of film. This can later be read by special enlarging and projecting equipment.

After the batches have been filmed, they are manually placed in metal drawers or *trays*. Then they are moved in the trays to the area where the electronic reader-sorter is kept. As the batches are placed in the trays, each batch is preceded by a slip called a *batch header* (see fig. 2). The drawee bank's MICR number has been encoded on this slip. The sorter reads the slip and then sorts all checks with the same number behind it.

The batch is followed by a *divider slip*. Then each following batch is preceded by a *sub-batch header*. This method continues until each carrier tray is full. After the last batch in the tray, another control slip is marked as an "end-of-tray" slip (see fig. 2).

The trays are then taken and the batches are fed into the *sorter*. This machine can read the magnetic ink numbers on the bottom of the checks. It divides them into any order that it's programmed to do. It can only read one digit in a number at a time. So it takes a number of separate sorts to divide the checks according to bank, Federal Reserve district, account number, check order, or any other sort that's programmed. However, it performs these sorts reading hundreds of items per minute.

THIS ITEM WAS ENCLOSED SO THAT IT COULD BE PROCESSED ELECTRONICALLY. THIS CARRIER MAY CARRY ENDORSEMENTS. RETAIN IT WITH THE CHECK.
Check Convenience
PLI 249

FIGURE 1. DOCUMENT CARRIER

Proof of Deposit Systems

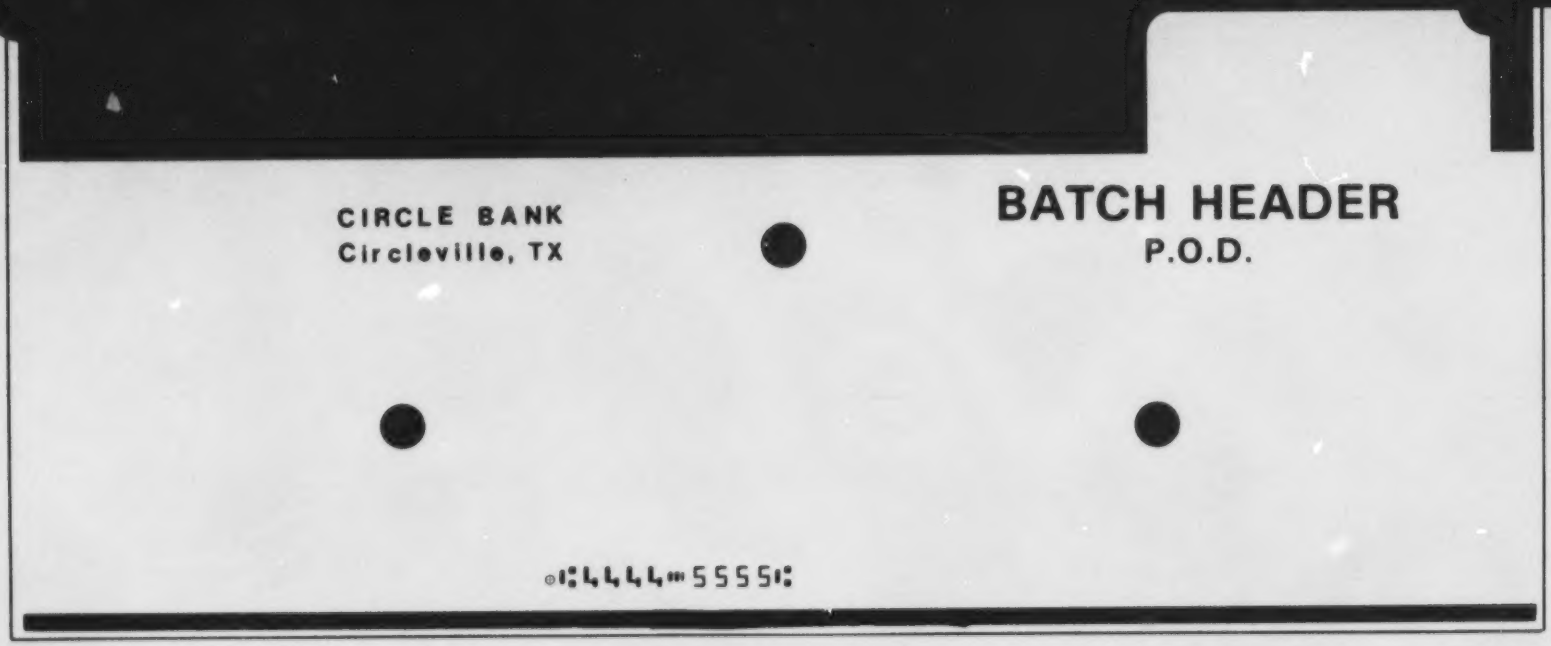
The process just described is a *semimanual system*. Many large banks today use a completely automated system based on special proof machines. More and more banks are converting to this system, known as *proof of deposit*.

These special machines handle unsorted items with their deposit slips in the same order in which they were received. The proof operator keys in the deposit amounts as before. Then he or she presses a key that moves the item to a special slot or pocket. Different machines will have different numbers of pockets. After keying in the individual items (debits), the total on the deposit slips (credits) is also keyed in. Then a special key for credits is pressed. As a result, the indexed amounts are placed on two tapes: (1) one lists all items in the order in which they were handled and (2) another lists the pocket or slot to which the item is being sent.

This method eliminates the need for some of the preliminary sorting processes. At the same time, it provides both a control total and an immediate proof of the deposit. The machine yields what is known as a "zero-out" proof. As the deposit ticket totals are keyed in, the machine automatically deducts the credits (deposit total) from the debits (total of individual items.) If the balance is less than zero, an error is immediately signaled to the operator. This is done by the machines either locking, sounding a bell, flashing a light, or making some other signal.

Transit Department

Once the items have been sorted by their destination point, the collection and clearing process begins. *Collections and clearing* is the process by which banks secure funds for the checks they have paid or accepted for deposit from the banks on which the checks are drawn. At the same time, the corresponding records are adjusted or "cleared." The transit department handles the major portion of this task.



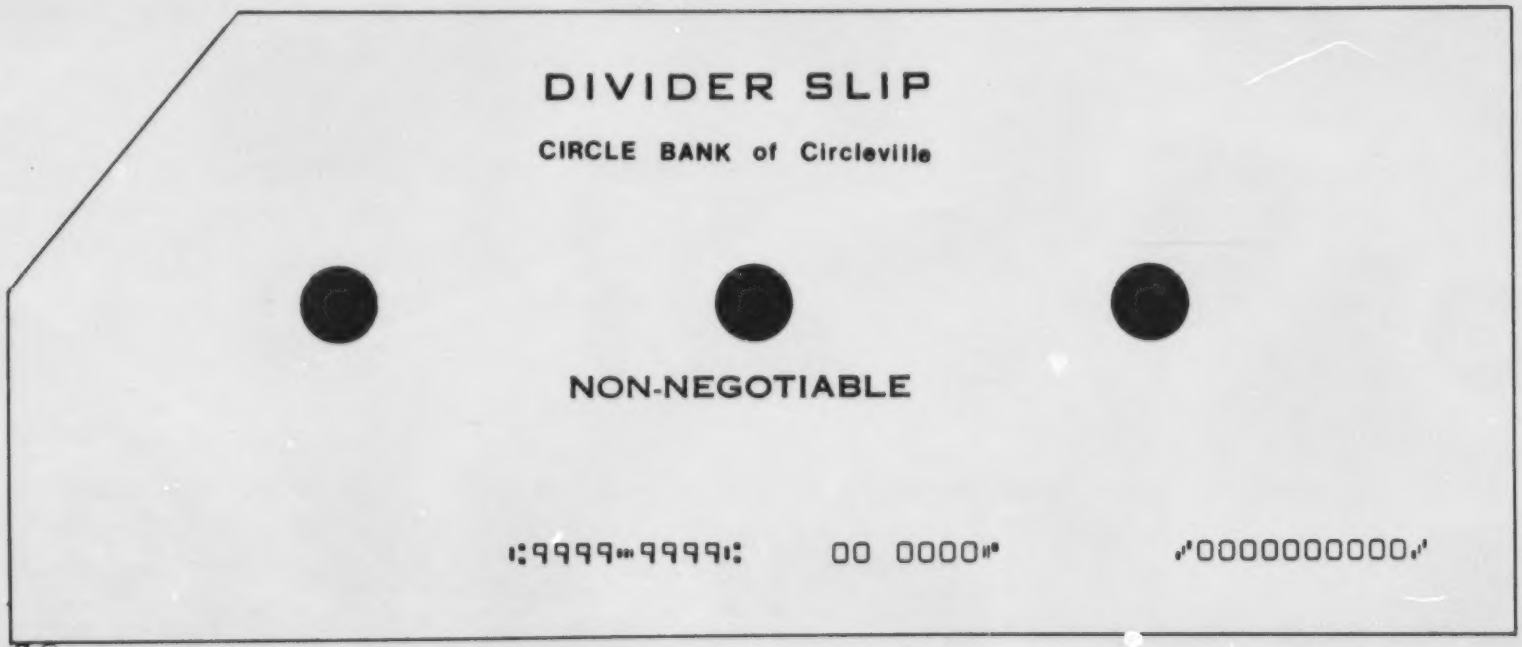


FIGURE 2. BATCH SLIPS

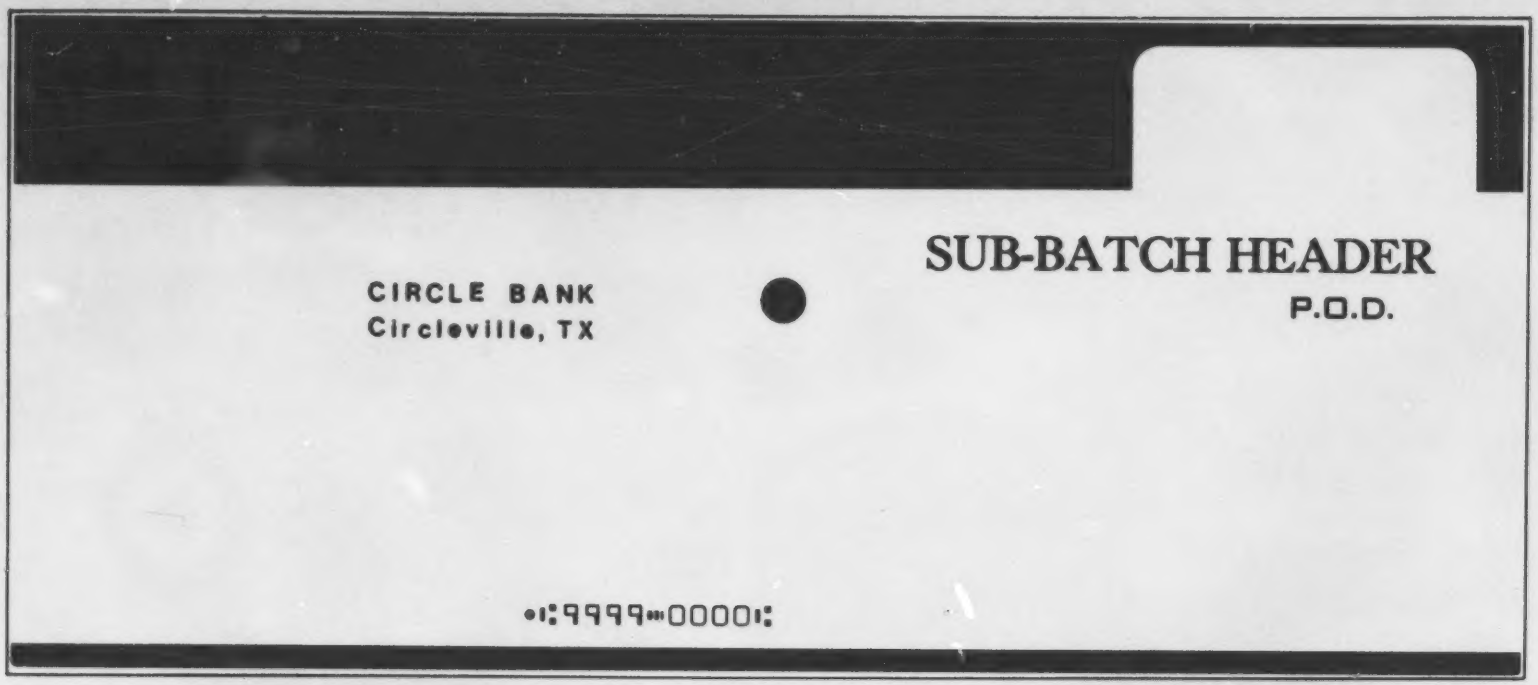


FIGURE 2. BATCH SLIPS

All items can be sorted into three categories: *on-us items*, drawn on the paying bank; *clearing items*, drawn on local area banks; and *transit items*, drawn on out-of-town banks. All items after being sorted are sent to the transit department. Here a document called a "cash letter" is prepared. This document lists each item for which a bank is claiming payment. It is sent along with the individual items to the drawee bank. A copy of this cash letter is also kept by the sending bank.

There are four major ways items can be presented from one bank to another. First, collection can be handled through *direct presentment*. This means the representative of the payer bank goes directly, or the item is mailed or sent directly, to the drawee bank to claim payment. Second, collection for local area items can be done by means of a membership organization known as a *clearinghouse association*. This association uses a central location where representatives of member banks meet daily at a certain time. They exchange the checks they've paid for those they owe.

Third, checks may be cleared and collected through the *Federal Reserve system*. This method is generally used for collection of out-of-town items. It is only available to members of the Federal Reserve system. The collection items and their attached cash letter are taken and deposited at the Federal Reserve bank or its branch. The day and time that the presenting bank receives its credit at the Federal Reserve system depends on the time of the deposit, and where it is payable. The Federal Reserve prints a schedule that shows the requirements for the three types of credit they grant: immediate, one-day, or two-day.

The fourth and final method of collection a bank may use is a correspondent bank. This allows a bank to send or mail collection items to another, usually larger, bank for deposit. The correspondent bank then uses one of the other methods for collecting these checks.

The transit department also receives all the checks that have been sent for direct presentment or from the clearinghouse or correspondent bank. It then verifies the accompanying cash letters and prepares the forms necessary to transfer the funds owed.

Data Processing

Once checks have been returned to the transit department and their cash letters have been balanced, the items will be sent to one of two places. The majority of the items will be sent to *data processing*. The data processing department services are vital to many areas of a bank. But they especially support the paying and receiving function.

In this area, the actual crediting and debiting of a customer's account takes place. This used to be a function of the bookkeeping department before the advent of electronic posting of customer records. The data processing department is also responsible for preparing a printed statement of customers' accounts. This is sent to them on a periodic cyclical basis, usually monthly.

Returned Items and Exceptions

Sometimes an item might fail to clear due to a missort or an insufficient account. Then it is sent from transit to the *return items and exceptions department*, rather than to data processing. Here the personnel must see that an uncleared or dishonored item is returned to the bank, business, or individual by whom it was presented for payment. Also, if a provisional credit or debit has already been charged to the depositor's account, it must be reversed. This is done by means of special forms called *credit* or *debit memos* (see fig. 3).

Also most banks charge a fee for insufficient checks. A debit memo for this amount must be prepared and sent to data processing to be deducted from the depositor's account.

Bookkeeping

The *bookkeeping department* of a bank, unlike that of other companies, does not keep the records of the bank's payments and

DEBIT

ADJUSTING ENTRY:
CORRECTING YOUR CASH LETTER / DEPOSIT, AS DESCRIBED BELOW

Your Date _____ Total _____ Tape / Sub Total _____ _____ DATE

☐ Item(s) Listed Not Enclosed ☐ Error in Listing ☐ Error in Addition, Subtraction

Remarks:

Items Listed as _____
Between _____
Should Be _____
Drawn On _____
Maker _____
Endorsed _____

AMOUNT

DEBIT TO THE ACCOUNT OF

Clerk _____ Mach. _____

CIRCLE BANK of CIRCLEVILLE
CIRCLEVILLE, TEXAS

A/C No. _____

CREDIT

ADJUSTING ENTRY:
CORRECTING YOUR CASH LETTER/DEPOSIT, AS DESCRIBED BELOW

Your Date _____ Total _____ Tape /Sub Total _____ _____ DATE

☐ Item(s) Enclosed Not Listed ☐ Error in Listing ☐ Error in Addition/Subtraction

Remarks:

Items Listed as _____
Between _____
Should Be _____
Drawn On _____
Maker _____
Endorsed _____

AMOUNT

CREDIT TO THE ACCOUNT OF

Clerk _____ Mach. _____

CIRCLE BANK of Circleville
Circleville, TX

A/C No. _____

⑆113001226⑆

FIGURE 3. DEBIT AND CREDIT MEMOS

43

44

expenses. But rather, it keeps the records of the bank's customers, its *depositors*. This is the final destination of all "on-us" checks prior to their being returned to the maker.

The responsibility of the bookkeeping department is threefold: (1) to examine all "on-us" items to ensure they are valid for payment, (2) to keep records of the current activity in a customer's account, and (3) to prepare the customer's periodic statements for mailing.

As checks arrive in the bookkeeping department, each item must be verified for a number of things. This is the first time these items have been carefully checked for validity since they arrived with the cash letter from the sending bank.

Certain steps may be accomplished by a simple inspection of the item: the check should be properly made out, it should not be stale or post-dated, the written and figure amounts agree, and there have been no alterations of any kind.

Other factors must also be verified. These require checking the bank's records. The signature must be authorized and genuine. This can be checked by comparing it with the one on the signature card in the customer's file. It's necessary to check that there are no "holds" (restrictions) of any kind on the account and that there is no "stop payment" order for that particular item. If any discrepancies are noted, the appropriate forms must be completed. Then the item must be sent to the proper department for handling, such as *return items and exceptions*.

Once the checks have been verified, they are placed in a special file which is kept on each DDA depositor. These checks are kept until the close of that customer's statement cycle. The files are often kept in a piece of equipment called a "vayer." It operates on the principle of rotating trays. It allows a large number of files to be maintained in a limited space.

As each customer's billing cycle matures, the bookkeeping personnel take the customer statement sent from data processing. They place it in an envelope with all the checks, credits, and/or debits in the customer's file. This statement is then mailed to each customer. Many banks now have machines that handle this stuffing procedure, rather than doing it by hand.

Vault Services

So far, the paying and receiving support services described have all dealt with checks. However, the paying and receiving tellers also must have support with their coin and currency supplies. These services are provided by the vault. All money from the Federal Reserve is shipped to this department. From the vault, each paying and receiving teller checks out his or her coin and currency each day and then returns it each evening.

Vault tellers receive, verify, and store all the paying and receiving tellers' money as well as shipments of new money from the Federal Reserve bank. When more coin and currency are needed from the Federal Reserve bank, vault personnel are responsible for completing the order form. This is then sent to the Federal Reserve system (see fig. 4). The new money usually arrives the following day.

Also if a bank has excess currency or mutilated (damaged) money to be returned to the Federal Reserve system, vault personnel are responsible for preparing this shipment. They fill out a form called an *advice of money shipment* that goes with it (see fig. 5). This form separately lists the amount of each denomination of coin and currency that is being sent.

Often this same vault, or in larger banks, a separate vault, is used to receive deposits from commercial accounts. Here the money is received from a courier service and verified under *dual control*. When deposits are received under dual control, there are always two bank employees present. Then a receipt is prepared for and sent to the commercial depositor. The coin and currency received is either stored in that vault or transferred to the coin and currency vault, if it is separate (see fig. 4).

ORDER FOR CURRENCY AND COIN

Cash Department _____ Date

Federal Reserve Bank of_____or Appropriate Branch

Please charge the reserve account of the bank named below and ship the currency and coin described as follows:

Currency		Coin	
	Amount		Amount
Ones	$_____	Dollars	$_____
Fives	_____	Halves	_____
Tens	_____	Quarters	_____
Twenties	_____	Dimes	_____
Fifties	_____	Nickels	_____
Hundreds	_____	Cents	_____
Twos	_____		

Total Currency and Coin $_____

Instructions for Ordering

1. Currency should be ordered in standard packages of one hundred notes to the package or multiples thereof. Coin should be ordered in standard sacks as follows:

Dollars, Halves, Quarters, Dimes	$1,000
Nickels	200
Cents	50

2. Orders for currency and coin should not be included with cash letter remittances but should be addressed directly to the Cash Department of the Federal Reserve Bank of_____or appropriate branch.
3. Since many post offices do not have adequate storage facilities, money to be shipped by registered mail should be ordered for arrival on a day that your bank is open. If prior arrangements are made with your local post office, however, shipments may be scheduled to reach you on a day your bank is observing as a holiday. In order that we may know when to make the shipment covered by this order, the appropriate block at the bottom of this form should be checked. Money orders that are to be dispatched on the date they are received should reach us by 2:00 p.m. that day. Those received after that time will be held until the following business day.

PLEASE CHECK THE APPROPRIATE BLOCK FOR EACH ORDER

☐ This bank will be **open** on date shipment is to arrive.
☐ This bank will be closed on date shipment is to arrive, but appropriate arrangements have been made with the post office for its receipt.
☐ This bank will be **closed on** _____. Shipment should be scheduled to arrive on the following business day.

_____ Name of Bank

_____ Location

_____ Official Signature of Officer

_____ Title

FIGURE 4

In some commercial deposits, a bank may receive food stamps as well as coin and currency. These coupons are like money and must be sent to the Federal Reserve in the same way as coin and currency are sent for credit to a bank's account. They are also shipped in the same way but with a special *advice of food stamp coupons* form (see fig. 6).

If the bank is a correspondent for another bank, the coin and currency vault also ships and receives money and food stamps to and from its correspondent. Each of these transactions must also be verified. And special credit and debit forms are used for these shipments (see fig. 7-9). These forms are used in the balancing procedure to account for the actual coin and currency on hand each day.

ADVICE OF MONEY SHIPMENT

NO. OF BAGS

☐ CURRENCY DEPOSIT
☐ COIN DEPOSIT

TO:

☐ FEDERAL RESERVE BANK OF ~~~~~~~~~~~~, TEXAS
☐ FEDERAL RESERVE BANK BRANCH, ~~~~~~~, TEXAS
☐ FEDERAL RESERVE BANK BRANCH, ~~~~~~, TEXAS
☐ FEDERAL RESERVE BANK BRANCH, ~~~~~~~~~~, TEXAS

Credit the bank named below for the amount shown at the right
3-69-4829-2
Circle Bank
Circleville, TX
1122-0091-7

SUBMITTED FOR IMMEDIATE CREDIT TO MEMBER BANK RESERVE ACCOUNT, SUBJECT TO VERIFICATION.

DATE SHIPPED		DATE OF CREDIT
CURRENCY	COIN	AMOUNT
1's	Dollars	
2's	Halves	
5's	Quarters	
10's	Dimes	
20's	Nickels	
50's	Cents	
100's		
POSTAGE		
TOTAL AMOUNT OF SHIPMENT		

FIGURE 5

ADVICE OF FOOD COUPON SHIPMENT

TO: ☐ Federal Reserve Bank of ~~~~~~~~~~~~~~~~~~ Texas
☐ Federal Reserve Bank Branch, ~~~~~~~ Texas
☐ Federal Reserve Bank Branch, ~~~~~~~ Texas
☐ Federal Reserve Bank Branch, ~~~~~~~~ Texas

DATE _____

YOUR ACCOUNT HAS BEEN CREDITED FOR THE AMOUNT SHOWN AT THE RIGHT FOR THE USE OF THE SUBMITTING BANK.	NO. OF $1.00 FOOD STAMPS	AMOUNT OF $1.00 FOOD STAMPS $
	NO. OF $5.00 FOOD STAMPS	AMOUNT OF $5.00 FOOD STAMPS $
	NO. OF $10.00 FOOD STAMPS	AMOUNT OF $10.00 FOOD STAMPS $
SUBMITTING BANK	TOTAL AMOUNT OF SHIPMENT	$

FOOD STAMP COUPONS SUBMITTED FOR IMMEDIATE CREDIT TO MEMBER BANK RESERVE ACCOUNT, SUBJECT TO VERIFICATION. CREDIT AND/OR ADJUSTING ENTRIES TO NONMEMBER BANK DEPOSITS WILL BE MADE THROUGH DESIGNATED MEMBER BANK RESERVE ACCOUNT.

FIGURE 6

CIRCLE BANK
of Circleville
Circleville, TX

DEBIT

SHIPPED TO

RECEIPT

Prepared by: _____

Approved by: _____

DATE OF ENTRY

Post: Money Shipment. Covering the following described shipment of money:

CURRENCY							
1's	5's	10's	20's	50's	100's		
COIN							
	Halves	Quarters	Dimes	Nickels	Cents		

AMOUNT

⑆113001226⑆

FIGURE 7. DEBIT FORM

Received by HANDS, INCORPORATED a private contract carrier,

PRINTED IN U. S. A.

from _____ consignor, the following shipment(s) to be delivered to the respective consignees hereinbelow stated. It is agreed that all items and packages of each shipment are to be distinctively and securely sealed by the consignor and that ..... Incorporated in no event shall be liable for any shortage claimed in any item or package delivered to it not so distinctively and securely sealed. ..... Incorporated in no event shall be liable for more than the value hereinbelow stated.

DATE	CONSIGNEE	SAID TO CONTAIN				No. ITEMS	RECEIPTED BY

PLEASE READ WARNING ON COVER OF BOOK

FIGURE 9. CREDIT FORM

SECURITY **CUSTOMER'S DEPOSITS** 257322

To _____ Route No. _____

Address _____ Day Date _____

Customer	No. Items	Said To Contain	Bags/ Seal No.	Received By	Time

Received from Security, Inc., Sealed Bags Said To Contain The Amount Described Above.

Date

Time

(Signature Authorized Person) (Total No. of Items) (Signature of SI)

SI OFFICIAL RECORD

FIGURE 8

Questions

1. What is the twofold task of the *proof department?*
2. What are two methods of proofing deposits?
3. What tasks does the *transit department* perform?
4. Name four ways checks may be presented for payment.
5. What are the two main services data processing provides for the paying and receiving function?
6. What are the functions of the *return items and exceptions department?*
7. What is the threefold task of the *bookkeeping department?*
8. What services are provided by the *coin and currency vault?*
9. Define "batch," "proof of deposit," "zero-out proof," "collections and clearing," "cash letter," and "holds."

Project

Diagram the routing of checks from the teller's window to the drawer's file for all three types of checks.

Assignment 6

The Lending Function

Objectives: *After completing this assignment, you will be able to–*

- *Name the two parts of a loan.*
- *List the three reasons banks are good places to secure loans.*
- *List the three areas of lending that are regulated by law.*
- *Name the two main types of loans.*
- *Explain the differences among the three types of secured notes.*
- List the four major classes of loans made by most banks.
- Cite three reasons why businesses might apply for a loan.
- *Give the purpose of* ***consumer credit loans, real estate loans,*** *and* ***interbank loans.***
- *Cite and explain the* ***three "C"s of credit.***
- *List the factors that affect the setting of interest rates.*
- *Define the following terms:* ***loan portfolio, collateral, dual control, discounting, line of credit,*** *and* ***prime rate.***

Arthur Cohen was visiting with his friend, Charlotte Mason. "Well, I'm finally going to get a car, Charlotte," Art said. "Since I got my M&DE job, I've been able to save enough for a downpayment. And my Dad said he'd cosign the note for me. Now I just have to get a loan. But I'm not sure where to get it or how to go about it. You work in a bank. What should I do first?"

"Well, Art," said Charlotte, "lots of financial institutions loan money. But banks probably loan more money for more reasons than any other type. You have a job and your Dad's going to cosign for you. And you'll have the car for collateral. So you shouldn't have too much trouble, even though you haven't had credit before. I'd start by checking with a bank where you know a loan officer or someone else. It always helps if you have your personal accounts at the bank where you're trying to borrow. It also can't hurt to check around to compare interest rates."

Loan Services

Lending money is one of two major ways that banks earn profits. Always remember that banks are businesses, owned by stockholders who are entitled to a return on their investment. Also, like any other business, if a bank doesn't make a profit, it can't stay in operation. *Loaning money* and *charging interest* for this service are ways banks earn this necessary profit. Another way, *investments,* will be discussed in a later assignment.

Lending was one of the first reasons the banking industry was born. There have always been people who had more money than they needed for their current expenses, and those who didn't have enough. The lending function helps both of these groups. Those people who have excess funds can put that money to use and let it earn money for them. They deposit it in banks that pay them interest for its use.

Those who need money can borrow it from the bank. They pay interest for the privilege of using the money when they need

it. Therefore, each loan is composed of two parts: (1) *the principal,* which is the amount of money borrowed; and (2) *the interest,* the fee paid for the use of these funds.

Charlotte was right to suggest that Art see his local banker for three good reasons. First, people need money for many reasons. And banks lend money for a wider variety of reasons than any other type of financial institution. Second, banks are more flexible in the types of credit plans that they offer. Third, commercial banks depend on their depositors for the major source of the funds they lend. Therefore, they have a personal responsibility to fulfill the loan needs of their customers.

Art needed a personal or consumer loan. But businesses also need loans for many different reasons. Art had a piece of property, his car, to use as *collateral.* Collateral means security to guarantee repayment of the loan. But banks also grant unsecured loans. This assignment will discuss these and all the other basic facets of the lending function.

Organization of Bank Lending

The loan function of a commercial bank is usually organized through the combined activities of four separate departments or areas. These are (1) the board of directors, (2) the loan officers, (3) the loan operations (note) department, and (4) the credit department.

The board of directors outlines the general lending policies of its specific institution. These policies cover the types of loans they wish to offer and that they feel will meet the needs of the community. Also the objectives of the bank's profit plan are considered. Most banks try to keep their group of loans, called a *loan portfolio,* well balanced. They must consider both the type of loan granted and the type of borrower for whom they are approved.

Different types of loans require special types of knowledge, especially in the commercial bank division. There is an increasing competition among all types of financial institutions for loan business. And banks must decide on the types of loans for which they have loan officers qualified to provide proper service. Or they may need to spend the money necessary to hire or train such lending experts.

Part of lending policy is dictated by law. Banking is one of the most regulated industries in the world. Laws specify the maximum amount of money that may be loaned to any one borrower. Currently, about 10 percent of a bank's surplus and capital accounts is considered the limit. This keeps banks from having too great an obligation to any one venture. Laws also control the maximum amount of interest that may be charged. Restrictions are also placed on the size and maturity of certain types of loans, such as real estate mortgages and loans guaranteed by stocks.

Once policies are set by the board of directors, the other three commercial bank areas that deal with lending handle the actual process. *Loan officers* are the persons responsible for interviewing applicants and insuring that applications are properly completed. They also make the final decision on whether or not the loan will be granted. Their decision is based on the data gathered through the efforts of the other two departments that assist with the lending process, *credit* and *loan operations,* and their own knowledge and investigation. Certain types of loans or very large loans may require the approval of a committee rather than just a single loan officer.

The primary support for loan officers comes from the credit department personnel. Their task is to research the financial and credit history of the loan applicant. Often these persons, sometimes called *credit analysts,* are asked to review fully the background of a particular applicant regarding any financial dealings. Data is gathered from credit association reports, retail store credit records, and other financial institutions. The information is then compiled in a report for the loan officer. She or he makes the decision to grant or deny the loan based on this data and the applicant

interview. Credit analysts can make suggestions to the lending officer in their reports. But the lending officer is free to act on or ignore these comments.

The loan operations department deals chiefly with the paperwork involved in processing a granted loan. This department is often called the *note department*. Here the borrower receives the check for funds that have been granted. Or the credit is processed for his or her account at the bank.

Note department personnel also keep records of the loan payments. And they hold the property, title, or other papers used to represent the assets pledged to secure the loan.

Since this collateral still belongs to the borrower, it must be protected, usually under *dual control*. This means that two people are responsible for its safekeeping. The value of this collateral must be maintained. This ensures that the bank will have access to it in case it must be sold to recover the money loaned.

In this area, the interest on the loan is calculated and collected. Most loans pay interest on an "accrual basis." This means that it builds over a period of time. Then it is collected in periodic lump sums. Often on short-term loans, the interest is deducted from the full amount of the loan at the time it is granted. Payments on the actual loan, principal, and amount do not start until all the interest is paid. This method is called *discounting* since the interest is collected in advance of the loan amount.

The note department keeps all records connected with the loans. There are three major records. These are called the *discount register*, the *liability ledger*, and *maturity tickler*. The discount register records each day's transactions with regard to the interest and principal collected. The liability ledger lists all outstanding loans and the type of collateral pledged. The maturity tickler is a reminder file, kept by due dates of all outstanding payments.

Today, as in other areas of banking, more and more of these note records are kept with computers. Their forms may vary, but they still provide this type of data.

Types and Classes of Loans

Most loans are divided into two main types: *secured* and *unsecured*. With a secured loan, the borrower pledges some type of asset, called collateral. This guarantees that the bank will recover the money it loans. If the borrower fails to repay the loan, the bank may claim the collateral and sell it to recover the funds.

There are three kinds of secured notes. First are *chattel mortgages*. These transfer the title to tangible personal property to the lender until the loan is paid off. *Tangible property* can be seen or touched, such as the car Art was buying. It is considered *real* property because it has financial value.

Second are *collateral notes*. These require the debt to be secured with intangible real property such as stocks, bonds, commodities, and insurance policies. These are considered *intangible* because you cannot touch actual stocks, bonds, or insurance, only the certificates that represent them. They are considered *real*, however, because they carry a cash or financial value.

Finally, a borrower may have a *cosigner*. This is a guarantee from another individual that he or she will pay the note if the borrower defaults for any reason. Art, because he was young, and had no credit history, used both a *chattel*, the car, and a *cosigner*, his father. Often, banks will require cosigners for such borrowers.

The second major loan type, *unsecured loans*, are often also called *signature loans*. This is because the loan is granted based on the borrower's pledge that it will be repaid and his or her good credit record. Signature loans are usually for smaller amounts of money. And they are granted only to people who are well known to the bank and have excellent credit ratings. They are also granted to businesses with solid financial statements.

Loans can also be divided into several classes. The four major groups most banks deal with are *commercial loans*, *personal* or *consumer credit loans* (sometimes called *installment loans*), *real estate loans*, and *interbank loans*.

Commercial Lending

This lending area, more than any other, demands a wide variety of expertise among loan officers. Depending upon the type of industries native to the particular region where a bank is located, a loan officer may be asked to grant loans to retail businesses, the petroleum industry, shipping and other transportation businesses, and import-export businesses. Also diverse professionals, such as attorneys, physicians, farmers, and ranchers, will require loans. Many large banks divide their commercial lending department according to these industry areas.

Before a loan officer can make an intelligent judgment about granting such loans, he or she must have a solid knowledge of several factors. These include the particular type of business, its requirements for success, and the current economic conditions and outlook for that industry. This background data is vital to even be able to ask the applicant the right questions about his or her situation.

Usually, the amounts of money granted in commercial loans are far larger than those made in the personal lending division. So the risk for the bank is proportionately increased. The commercial lending officers carry a heavy responsibility. Often much of their day is spent away from the bank. They must investigate the community and the location and conditions of businesses requesting the loans.

Businesses need loans for as many varied purposes as do individuals. They may wish to expand their businesses and build larger or more facilities. They might wish to increase their inventory or make improvements at an existing location. Or they may want to develop new products, to see the business through a slow period, or to do a variety of other things.

Some commercial loans are short-term. This means that they mature in relatively short periods of time, generally 30, 60, or 90 days. Others are *intermediate* or long-term. These are paid back in installments, ranging from monthly to annually, over a period of a year or years.

Most commercial loans are unsecured. This is because the company's ability to repay has been thoroughly investigated and assured before the loan is granted. Some small businesses may, however, be required to put up some form of collateral. Generally, business loans are formally drawn up and signed agreements. They specify the terms of the credit and the terms of repayment.

A special kind of commercial loan is known as a *line of credit*. This is a prearranged and approved maximum amount of credit. A business may draw on it over a specific time period, usually one year.

Consumer Credit Loans

This lending area, also known as the *personal lending* or the *installment lending* division, grants credit to individuals to assist them in acquiring consumer goods. Loans are granted for items such as cars, trips, expensive items, home improvements, or large bills. Even though the amount of these loans is much less than in commercial lending, bank profits on such loans are usually less since the risk is higher.

Because the loan amount is less, and the time period the dollars are held is shorter, the interest rates are computed differently. And these rates are higher than for those offered to commercial borrowers. This is necessary to cover the bank's handling costs and still yield a profit.

Consumer credit loans can also be obtained by banks through the purchase of the consumer debts owed to another company. This practice is called the *wholesale* end of consumer lending. Direct loans to individuals are considered the *retail* portion of consumer lending.

Real Estate Loans

Real estate loans are a special lending area. Generally, these mortgage loans are only offered by larger banks, if other funding sources for such projects exist elsewhere in the community. Mortgage loans usually involve fairly large dollar amounts over

longer periods of time. Many banks prefer to lend their funds to projects that mature more quickly, at higher rates of interest. Some banks, however, grant home mortgages. And in the commercial area, they make loans to the building industry. Often, this area provides funds known as *interim financing*. These funds are loaned for the construction period. They are paid off as soon as a project is sold and yields funds to the builder.

Interbank Lending and Participation

Often, large city banks that deal in correspondent bank agreements lend money to their correspondents. This often happens when the smaller bank is not a member of the Federal Reserve. Thus the smaller bank cannot go to this source for its short-term loan needs. This type of loan, called an *interbank loan*, is usually secured. Government securities or other highly salable bonds are used for the collateral.

Correspondent banks often need the participation of their larger counterpart to enable them to grant a larger loan that exceeds their own legal limitations. This allows them to take care of their local community needs more effectively.

Local participation agreements can also originate with groups of banks that wish to fund very large corporate projects. These projects might require several hundred million dollars to fund. Since a loan this size is obviously beyond the scope of a single bank, several banks can share in funding such a venture. One bank serves as the *lead bank* and handles the paperwork. It holds the note agreement and disburses the proceeds to each participant. Their proceeds are based on their share of the loan.

Considerations for Granting Loans

The loan officer and the credit department work together to investigate the risk involved in lending to an applicant. Before applicants are granted personal loans, they must meet certain criteria. First, to enter into a contract, they must be of legal age in the state where they apply. Then, three factors, often called the three "C"s of credit, are checked.

First is the applicant's *character*. This refers to the person's reputation in the community and previous habits of meeting other obligations. Second, *capacity* refers to his or her ability to repay the loan based on income and other outstanding debts. Third, *capital* means the total amount of the applicant's financial resources such as stocks, bonds, and other investments.

Specific applicant qualities are verified. Stability in employment and length of time at one residence, his or her previous record of paying debts, and references that can attest to these qualities are checked.

Loan officers are careful to ensure that the applicant can afford to repay the loan. He or she should not be overextended in debts. A general rule is that the applicant's liabilities (debts) should not exceed 40 percent of her or his income.

Commercial applicants must show evidence of a good credit rating. They should demonstrate sound business practices and policies. They must also have an acceptable profit margin and a stable financial balance sheet that shows all the company's assets and liabilities. The company is also investigated to see if it is efficiently managed and has a good business reputation within the community.

Interest Rates

Interest rates on loans have their maximum limits set by law. However, different types of loans carry different legal maximums. Naturally, if a greater risk is involved, a higher rate of interest may be charged. However, the major factor that controls interest rates is the principle of *supply* and *demand*. The greater the demand for loan money, the higher the interest rate will be.

Other factors also influence interest rates. Some of these are the financial stability of the borrower, the lender's ability to meet current loan demands, and the type of credit requested by the borrower. And as in all

other supply and demand situations, a major factor is always the competition.

The *prime rate* is the best and lowest rate banks charge. It is usually granted only to businesses that are the bank's best customers and have excellent credit ratings. Normally, prime rate is given for very large amounts that have low handling costs and little risk. This rate is usually set by the larger banks in the major financial centers. The smaller banks follow and set their own prime rates. However, it is an independent decision. Each bank may choose to set a totally different prime rate. It can vary not only from city to city, but even within the same community.

Questions

1. What are the two parts of a loan? Define them.
2. Give three reasons banks are good places to go for loans.
3. List the three areas of lending that are regulated by law.
4. Name the two main types of loans.
5. Explain the differences among the three types of *secured notes.*
6. List the four major classes of loans made by most banks.
7. Cite three reasons why businesses might apply for a loan.
8. For what purpose are *consumer credit loans, real estate loans,* and *interbank loans?*
9. List and explain the *three "C"s of credit.*
10. List the factors that affect the setting of interest rates.
11. Define the following terms: *loan portfolio, collateral, dual control, discounting, line of credit,* and *prime rate.*

Project

Compare the interest rates among three local banks for personal, commercial, and prime interest rates. Also find out the structure of their lending departments and diagram them.

Assignment 7

The Trust Function

Objectives: *After completing this assignment, you will be able to–*

- *Define* ***fiduciary services.***
- *List the five major groups of* ***trust services.***
- *Explain the difference between two types of* ***guardianships.***
- *Describe what is meant by a trustee in a bond venture.*

Susie Sanders was talking with Joan Martin. "Have you decided where you're going to college next year, Joan?"

"I want to go to a private college, Susie. But even if my grades are good enough to get in, I don't think I'll be able to afford it. I'm just not sure where I'll go. All colleges have gotten so expensive. What about you?"

"I've applied to State U. You're right about expensive, though. I was really worried when I saw the costs in the catalogs. Then Daddy told me about a trust my grandmother left for me before she died. She's had a man at her bank investing money for me, and there's enough there to cover college. I guess I'm really lucky."

Trust Services

Susie was indeed lucky. Her grandmother had made use of one of the services a commercial bank can provide for its customers–*trust services.* These services, also called *fiduciary services,* charge a bank, financial institution, or a particular individual with responsibility for holding and managing certain assets for the benefit of another party.

Anyone, a person or group, who benefits from fiduciary services is called a *beneficiary.* The person performing the trust services is called a *trustee.* The person establishing the trust is known as the *trustor.* In our story, Susie's grandmother was the trustor, the "man at the bank" is the trustee, and Susie is the beneficiary. It is possible to have more than one trustee and beneficiary. In that case, these individuals are known as cotrustees and beneficiaries.

The fiduciary services of most banks can be divided into five major groups. These are (1) *administering trusts and guardianships,* (2) *planning estates,* (3) *settling estates,* (4) *performing agencies,* and (5) *assisting corporations in bond ventures.*

Those people using bank trust services pay a fee for this assistance. The fee amount depends upon the type and number of responsibilities the trustee is given. A trustee may have the authority to collect debts, rents, and other kinds of payments for a beneficiary. She or he may also have the beneficiary's *power of attorney.* This is the authority to legally make decisions and sign papers for another. The trustee might also have the authority to buy and sell assets for the beneficiary.

Administering Trusts and Guardianships

As a trustee, the bank officer has certain responsibilities to the client. She or he must keep trust matters confidential. Trustees must also perform the assigned duties loyally in the best interests of the ben-

eficiary. They must protect and conserve the assets of the trust and see that the trust produces income.

All the paperwork and other duties necessary to administer the trust must be performed. Records must be kept of every transaction. All assets and their disbursement and growth must always be held in account. And the trustees must always keep control of them. It's also very important to keep the assets and activities of the various trusts under the trustee's authority totally separate.

Types of Trusts

Six major types of trusts are available. The most widely known of these is the kind Susie's grandmother established for her. This is a trust under a will, also known as a *testamentary trust*. This type of trust provides that the property or money being left is placed in trust for the beneficiary until certain conditions are met. This usually means until the beneficiary reaches a certain age. The money or property can be permanently left in trust if the trustor feels the assets would be better managed by someone other than the beneficiary. This type of trust goes into effect only at the time of the trustor's death since it is established by a will.

It is also possible to set up a *living trust*. A trustor can place certain assets in trust. Then he or she can instruct that the income from them be paid to her or him until death. Then the trustor provides for any disposition desired following the trustor's death. This disposition might include retaining the property or assets in trust. The income would be paid continuously until the death of the beneficiary. Or the trustee might immediately divide or pay the assets over to the beneficiary. In this way, a "living trust" can continue in effect even after the trustor's death.

A *life insurance* trust is the third type used by individuals. In these trusts, life insurance policies are made payable to a beneficiary. But the trustee is responsible for handling and distributing the proceeds from it.

The three trusts described above are *individual* or *personal* trusts. There are also three major types of *group* or *corporate* trusts. The most common of these types is the *pension trust*. In this type of trust, the employer, and in some cases the employees, pay a set amount into a fund. This is held in trust by the bank. Then as employees retire, they draw funds from it based on their contribution and/or length of service and salary over a given period of time.

The second type of corporate trust is a *profit-sharing plan*. Through this plan, an employer places a preset part of the company's profits into a trust held by a bank. These funds are distributed to the company's employees when they retire or when the plan terminates.

Another type of group trust is a *community trust*. This type is organized by a group from a particular community, rather than from a company. Citizens may designate by their will that, after their death, certain assets be held in trust by a bank. These funds will be administered for the benefit of the people in the community.

Guardianships

There are two major types of guardianships. One is the guardianship of another *person* and the other is the guardianship of *property*. Guardians are appointed either for a *minor*, a person of less than legal age, or for an *incompetent*. An incompetent, as determined by a court, is one who is incapable of managing property regardless of age.

The guardian of another person is responsible to meet the actual physical needs of the individual, such as food, clothing, shelter, and education. Banks are rarely assigned the guardianship of a person. However, banks are quite often made guardian of property. In this capacity, the bank functions in much the same way as a trustee does. The guardian holds, manages, and disburses the "ward's" assets and property. The exact limits of the guardian's responsibilities are defined by law.

Estate Planning

Estate planning can be a complex business. Many factors must be considered, including the amount and types of property being left and the abilities and wishes of those who will inherit it. By leaving your *estate* (all your property and assets) in trust, it will probably increase in worth and therefore last longer.

A banker can be an important member of an estate planning team. He or she can lend expertise along with a lawyer, accountant, and a life insurance agent. This helps clients conserve and invest their assets so they will grow. The major factor bankers will consider is how best to distribute your property and assets to avoid excessive and unnecessary taxes.

Settling Estates

The actual estate settlement is another very important trust service that commercial banks can perform. This is probably the best known of all trust functions. The actual tasks include inventorying the deceased's assets and property, paying all the remaining debts and taxes owed, and then properly disposing of the remaining assets and property.

Many people leave a last will and testament. This is usually called a will. It states their wishes regarding the division of their property. Often, however, their possessions include more than just personal effects and cash. Then an estate must be established in order to legally transfer ownership of the assets.

Whether or not a will is left, an estate settlement is controlled by the courts. The person who leaves the will is known as the *testator*. The person or institution named to handle the settlement is called the *executor*. If someone dies without leaving a will, he or she is said to have died *intestate*.

If a will is left, it first must be filed with a court. The executor is named by the testator approved by them. If no will is left, the court will appoint an executor. A court-appointed executor is often a bank. The bank, of course, only has the authority given it by the court. An executor named in the will may have any other authority the testator states in the will.

Performing Agencies

This trust function offers financial expertise to businesses, individuals, and many groups and organizations in several ways. "The term agent, in its broadest sense, includes any person who acts for another by authority of the latter."[1] The person who gives the agent the power to act on his or her behalf is called the *principal*. The principal's relationship with the agent is known as an *agency*. So when banks "perform agencies," they are acting for another by that person's authority.

There is one basic difference between an agency and a trust. In an agency, the title to the property remains with the principal. In a trust, the title to the property is legally given to the trustee.

Banks perform seven major types of agencies for clients. First, as a *safekeeping agent*, the bank receives, retains, and delivers property according to the principal's instructions. These properties are usually stocks, bonds, and securities. This is different from renting a safety deposit box. The bank knows what the property is, whereas only the owner is aware of the safety deposit box contents.

Second, banks can act as a *custodian*. In this role, the bank holds property and delivers it as a safekeeping agent does. Also it buys, sells, delivers, and receives property and collects and pays out income for the client. The custodian can also provide information regarding these securities. But it makes no recommendations about them.

Third, a bank can serve as a *managing agent*. In providing this service, the bank gives principals not only information but also advice about the securities in their portfolio. The bank also actively manages these securities, sometimes making changes on its own authority.

Escrow agencies are a fourth type of service. In this role, the bank impartially

holds property for two other parties until certain events transpire. Then the bank turns over the property to one party or the other, depending on the outcome of the event.

Often the bank functions as a *transfer and registrar agent* for companies and stockholders. In this role, the bank transfers ownership of shares of stock from one party to another. It also keeps the records of all these transfers.

Sixth, the bank can serve as a *paying agent*. This task involves paying dividends and interest on stocks.

Finally, the bank can serve as a *depository agent*. In this role, the bank holds the cash and securities of companies during periods of corporate reorganization.

These are just some of the agency functions banks can offer. Other agency services range from keeping accounting records to managing endowment (gift) property. These services are often performed for charitable and educational organizations.

Trustee in Bond Ventures

The final trust function concerns the bank's agreement with a corporation that wishes to borrow money by selling bonds. To offer bonds to the public, one of the trustees must be a bank or trust company. The trustee serves as the liaison between the corporation and the lenders who purchase the bonds. The bank, as trustee, verifies that a bond is part of an authorized issue. It handles payments, redemption, and conversion of the bonds. The bank also takes any actions needed to protect the bondholders' interests.

Remember that a trust department's major purpose is to offer financial expertise in planning and managing assets for clients.

Questions

1. What are *fiduciary services*?
2. List the five major groups into which trust services can be divided.
3. What is the most important thing to remember about trust services?
4. Explain the difference between the two types of *guardianships*.
5. Describe what is meant by a *trustee* in a bond venture.

Assignment 8

Internal Marketing Functions

Objectives: *After completing this assignment, you will be able to—*

- *List the six services usually considered to be* ***internal marketing functions.***
- *Explain the main tasks that are handled by the* ***customer service department.***
- *Describe the procedures used in* ***safety deposit vaults.***
- *List the two sides of the* ***bank credit card department.***
- *Cite two services often provided by the* ***cash management department.***
- *Explain what is meant by a* ***lockbox service.***
- *List the responsibilities of a* ***collections teller.***

The marketing function embodies many bank departments. All customer contact areas are, of course, involved in marketing the bank's services to all their customers, both retail and corporate. A customer clientele must be developed. And the bank provides many services to attract and hold them.

Advertising, promotions, and business development are the external means banks use to make customers aware of their services and to bring them in. These external marketing functions are discussed in the next assignment. This chapter focuses on those departments that perform marketing tasks, once the customers are in the bank.

New Accounts

A customer's first contact with the bank usually occurs in the *new accounts department.* This is a vitally important area. The customer's decision to open an account or not is often made right here. The new accounts employee's duty is to explain fully all the features and benefits of the various types of account services the bank offers.

As any good salesperson, this employee should determine as much as possible about the customer's needs. This will enable him or her to assist customers in making an intelligent choice of services to meet their needs best.

First, the customer needs to decide on the type or types of accounts to open. Then the new accounts representative needs to have the customer produce two or more types of identification. The customer is then asked to sign a signature card. It must be signed the same way the customer plans to sign checks or savings withdrawal forms. Then the representative should accept the customer's payment for opening the account. This should be taken to a teller and processed.

The representative then secures the deposit slip. He or she gives this to the customer, along with a supply of deposit slips. If it is a checking account, the customer also receives a supply of temporary checks. For checking account depositors, the representative should also help customers select the types of checks they want from the available samples.

Then the representative must complete the order form. Customers are told that personalized checks will be delivered to them as soon as they are printed. Any brochures on bank services should be given to customers at this time. An expression of appreciation for their business should be

offered. And the representative can also offer to assist in any way possible in the future.

Customer Service

Another very important marketing department is *customer service*. Customers come to this area for assistance with any problems with their accounts or statements.

This department also provides customers with information about their account balance. Often a small form (see fig. 1) is used to give the customer this information. On the top half, the customer prints the account name and the account number. The representative then looks up the data on the *microfiche* records and writes in the dollar amount on the bottom portion. This is given back to the customer. A *microfiche* is a reduced-image photographic record that can contain as many as 60 pages of normal type on one rectangular film slip. This is placed in a machine known as a *microfiche reader*. This projects a magnified image on a screen, making the data readable.

Customers also use the customer service department to place a *stop payment request* on their accounts (see fig. 2). This is a request by a depositor that the bank *not honor* a check they have written. Sometimes this happens if a check is lost or if a customer decides not to pay on a debt they have cleared with a check.

This department also can take information on stolen checks. It can place what is known as a *hold* on the account. This tells a teller or other bank official to check the customer's file to get further information before paying any checks on it. They also can order new checks here or close out their account.

Safekeeping and Safety Deposit Vault

The safekeeping department was discussed in the last assignment under the trust function. It is a marketing function also since it provides a special service for both retail and corporate customers. Here customers leave their securities. And the bank's personnel protect them and collect the interest on them, saving customers the time required for this chore.

The safety deposit vault differs from safekeeping. The bank representative has no knowledge of the contents of the customer's safety deposit box. These boxes usually come in two sizes, and customers pay a fee for their use. They are allowed to store any papers or valuables in these boxes which are kept in a large vault.

When customers wish to place or remove something from the safety deposit box, they come to the bank. The representative goes with them into the vault, while they remove the box. The representative then shows them to an area where they can open the box in privacy. Each time a customer uses the box, the date and length of time spent in the vault is recorded. Each customer is issued two keys to the box. When the customer is finished with the box, the representative and the customer jointly return it to the vault.

Vault representatives also issue the monthly bills for the box rental and issue the initial contracts for their use.

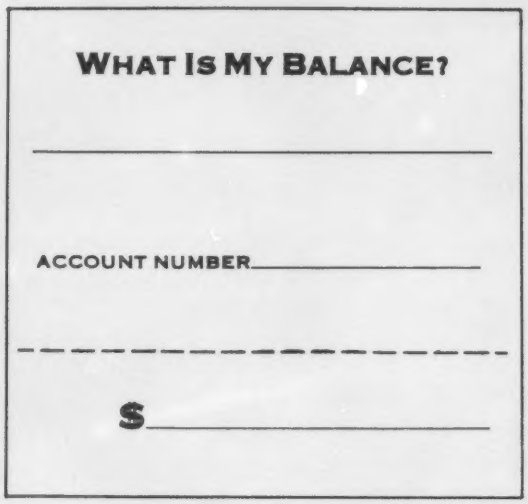
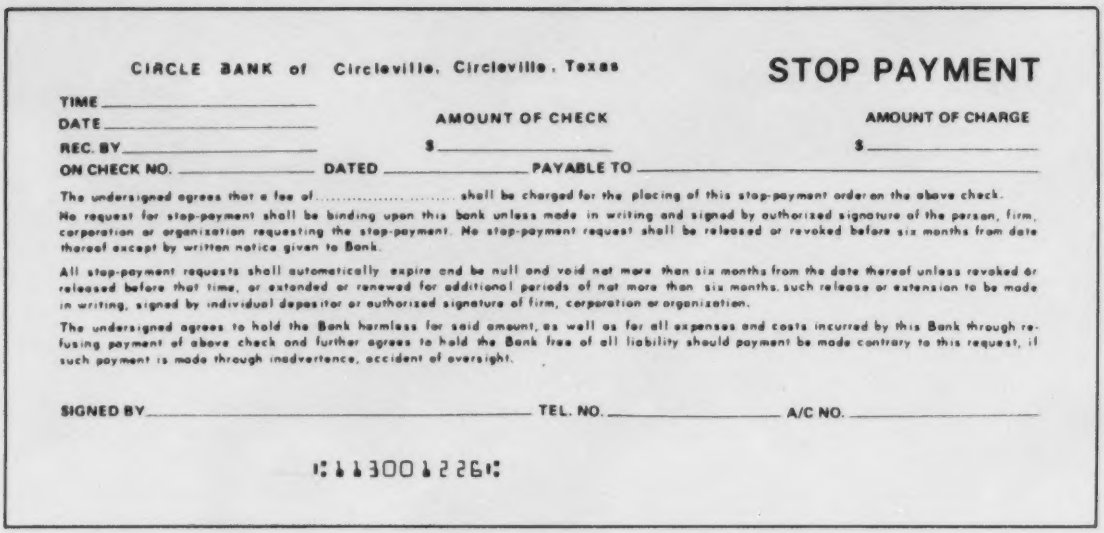


FIGURE 1



CIRCLE BANK of Circleville, Circleville, Texas

STOP PAYMENT

TIME _____
DATE _____
REC. BY _____

AMOUNT OF CHECK
$ _____

AMOUNT OF CHARGE
$ _____

ON CHECK NO. _____ DATED _____ PAYABLE TO _____

The undersigned agrees that a fee of ..... shall be charged for the placing of this stop-payment order on the above check.

No request for stop-payment shall be binding upon this bank unless made in writing and signed by authorized signature of the person, firm, corporation or organization requesting the stop-payment. No stop-payment request shall be released or revoked before six months from date thereof except by written notice given to Bank.

All stop-payment requests shall automatically expire and be null and void not more than six months from the date thereof unless revoked or released before that time, or extended or renewed for additional periods of not more than six months, such release or extension to be made in writing, signed by individual depositor or authorized signature of firm, corporation or organization.

The undersigned agrees to hold the Bank harmless for said amount, as well as for all expenses and costs incurred by this Bank through refusing payment of above check and further agrees to hold the Bank free of all liability should payment be made contrary to this request, if such payment is made through inadvertence, accident or oversight.

SIGNED BY _____ TEL. NO. _____ A/C NO. _____

⑆ 1 1 3 0 0 1 2 2 6 ⑆

FIGURE 2

Bank Credit Cards

Another marketing service many banks provide for their customers is to issue *bank credit cards*. The best known of these are Master Card and Visa. Banks issue these cards to customers who complete an application and meet the criteria established for their use. Usually, the banks establish a credit limit for each customer. This is based on the information provided and verified on the application. Representatives assist customers with any problems they may have with their accounts.

The bank also has a division within this service department known as the *merchant division*. These representatives accept the retail charge slips from merchants who accept these cards. They credit the merchants' accounts with these amounts. They then collect the funds from the retail customers who have purchased the goods or services with the card.

The bank must provide business development personnel who keep contact with the merchants accepting the card. They ensure that the merchant has sufficient charge forms and applications. They also serve as the bank liaison for dealing with any problems the merchant may encounter with debits, credits, and fee charges. Merchants are usually charged based on the amount of activity their account generates each month.

Cash Management and Lockbox

A corporate marketing service many banks offer is known as *cash management*. Banks may provide several special services for their business accounts. The two most commonly offered are *account analysis* and *automatic transfer of funds* between accounts.

Lockbox service is another feature often provided. A post office box is issued for businesses that offer consumer credit. The businesses' bank mail automatically goes to this address instead of to the business address. A bank representative collects this mail daily. Each deposit is processed, and the customer's account is credited. A photocopy of the checks received and a receipt for them is then mailed to the business. A fee is charged to the business for this service. It is usually based on the amount of activity the account has per month. Sometimes it's figured on a flat fee basis.

Collections

The final internal marketing area we will examine is *collections*. In one sense, collections is a paying and receiving function since the department accepts funds and issues receipts. In another way, it is a customer service function. Collection tellers accept and issue documents such as trust receipts, bonds, and sight drafts (payable on presentation) for customers. But they also accept tax payments and sell savings bonds, travelers checks, and money orders. They often convert money from one country's currency to another. And they issue special drafts to be paid in foreign currency. For this reason, they must stay abreast of current foreign exchange rates. See figures 3-6 for samples of the forms used by collection tellers.

TRUST RECEIPT

We hereby acknowledge that we received in trust from CIRCLE BANK of Circleville, Circleville, TX the following instruments payable by us:

Draft Drawn by_____ Amount $
Draft Drawn by_____ Amount $
Draft Drawn by_____ Amount $
Draft Drawn by_____ Amount $
Note in Favor_____ Amount $
Check Bearing our Endorsement Previously Deposited (Number of Checks_____) - - - - - - - - Totaling $
Various Drafts on us Itemized by Amount Below - Totaling $

Other Instruments:

In consideration of the ~~~~~~~~ Circle Bank ~~~~~~~~ having entrusted the above mentioned instruments to our care and custody we promise to give the aforesaid instruments the highest degree of care and protection. In addition, we promise that we will today either pay to the said bank the amount of money represented by the instruments or we will return any or all of them.

_____
Name of Company

Circleville, TX _____ 19____

By_____
Name and Title of Agent Authorized to Sign

FIGURE 3. SAMPLE COLLECTION FORMS

CITY COLLECTIONS

Demand item. Pay or return today.
Return with payment direct to the Collection Department.

CIRCLE BANK of Circleville Circleville, Texas 75463

Date: _____

Description	Amount

Check ( ) Correct Box

- [ ] Items Returned
- [ ] Items Cleared
- [ ] Collection Items

----------CLEARING HOUSE ASSOCIATION

------, *Texas,* _____ *19*____

Time Received _____

RECEIVED IN TRUST FROM _____

Checks and other evidences of demand amounting to $ _____ *subject to existing rules and regulations of --------Clearing House Association. This total is to be included with checks delivered at the succeeding Regular 11:00 A.M. Clearing House meeting.*

_____
NAME OF BANK

By _____
REPRESENTATIVE

THIS RECEIPT MUST BEAR THE NAMES OF BOTH BANK AND BANK REPRESENTATIVE

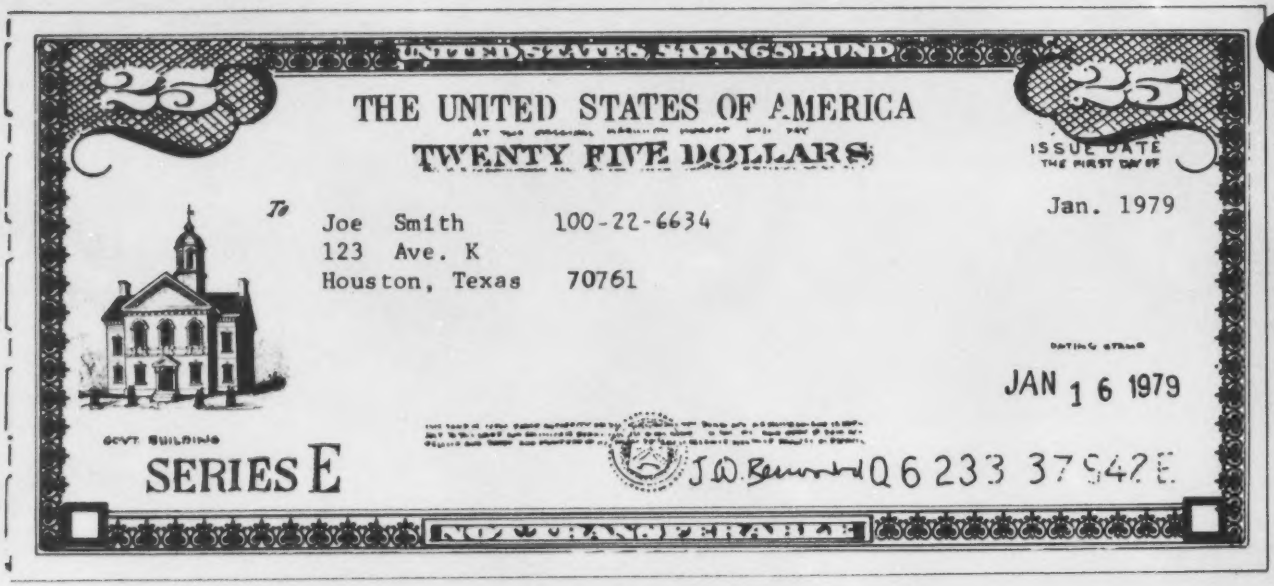


FIGURE 4. U. S. SAVINGS BOND

ISSUED BY: CIRCLE BANK OF CIRCLEVILLE
CIRCLEVILLE, TEXAS

AGAINST THIS CHECK PLEASE PAY

DATE _____

Amount

Not valid over U.S. $1,000

TO THE ORDER OF _____

FOR _____

Payable at the buying rate for sight drafts

Drawee Bank

DRAWN UNDER THE PROTECTION OF
--- BANK, NEW YORK

Authorized Signature

DO NOT TYPE OR WRITE IN THIS SPACE	Settlement to the --- Bank	Amount of Check	Rate	Dollar Equivalent
		Commission	Total	
		Contract Number	Checked	Approved
	Record Amt. Collected from Customer	Amount of Check	Rate	Dollar Equivalent
		Commission	Total	

SEND PARTS 3, 4, 5, AND 6 TO --- BANK, REMITTANCE

FIGURE 5. LETTER OF CREDIT

Received
From

CIRCLE BANK
of CIRCLEVILLE

OUR NUMBER 43444

SPECIAL INSTRUCTIONS

Description	Your Number	Your Date	
Payer		Our Date	Amount
Disposition / Attachment / Protest / Interest / Due		With Exchange	
		Interest	
		Total	
This Item Disposed of as Indicated Below		Less Collection Charges	
Remitted / Returned / Credited		Proceeds	

CIRCLE BANK
of CIRCLEVILLE

COLLECTION LETTER

OUR NO. 70000

Endorsers Number
Endorsers Date
Our Date

Payer	Place of Payment	Date	Due	Amount
				Total

Remarks

PROTEST

TO →

Endorser

COLLECTION DEPARTMENT

FIGURE 6. INCOMING AND OUTGOING COLLECTIONS

Questions

1. List the six *internal marketing functions.*
2. What tasks are performed by *customer service* personnel?
3. Describe the procedures for *safety deposit vaults.*
4. Name the two sides of the *bank credit card* department.
5. Which two services are often provided by the *cash management department?*
6. Define *lockbox service.*
7. What are the responsibilities of a *collections teller?*

Assignment 9

Business Development, Advertising, and Promotion

Objectives: *After completing this assignment, you will be able to–*

- *Explain the importance of the* ***business development officer.***
- *Describe the duties of the business development officer.*
- *Explain the difference between* ***sales promotion*** *and* ***advertising.***

As in every other business, a bank grows only if it continues to find new customers and to sell more services to customers. New business is all around, but banks must compete for it. According to Mary Roebling, Chairwoman of the Board of Trenton Trust Company, "The modern banker is now subjected to the same pressures of seeking and maintaining sources of revenue as are other businessmen and women. If we wish to serve industry, our community, and our stockholders effectively, we must build sales-minded institutions."[1]

Banking Is a Business

What is a sales-minded institution? In a sales-minded bank, "...selling embraces the entire bank–with every operation involving the public geared toward the promotion and sale of a continually expanding line of services and the maintenance of existing accounts."[2]

Personal sales efforts are vitally important to business development. Every bank employee should make a great effort to make each contact with a customer a selling situation. In this situation, the bank employee can either enhance the existing relationship with customers, or present new services to them. "Business development in any bank should be designed to serve a threefold service: bring business into the bank, educate the employees, and build morale. The image a bank puts forth in the community is reflected in the attitudes of the bank's employees."[3]

Every bank employee should make it his or her business to learn all about the bank's services. Quoting Clarence C. Barrow, chairman of the board and chief executive officer of First National Bank in St. Louis, "An employee cannot sell something if he or she does not understand the service, how it works, and who qualifies for it."[4]

Every employee should become sales-oriented and work toward increasing the number of services each customer uses. However, while this certainly improves a bank's business, it does not bring major new business into the bank. New business is the primary key to increasing growth. And tools such as *advertising* and *sales promotion* are used with intensive personal sales campaigns.

Many large banks use a special *business development department.* The personnel in this department actively seek new business outside the bank. This doesn't mean bankers have become door-to-door salespeople. The majority of these outside salespeople con-

fine their efforts to seeking accounts for the commercial, rather than the personal, banking division.

These personnel call on new businesses in the community. They follow up on any other leads they may receive from a variety of other sources. In fact, uncovering new leads should be a major effort of every bank employee. It is a primary concern of the business development department.

These employees also need to call on existing accounts and keep up good relationships. They can discover if there are any customer needs that the bank could, but currently is not, meeting. "Calling on present customers and desirable prospects is unquestionably one of the . . . [requirements for] today's contact officer," a southern bank executive writes. "A bank officer simply must make the time for developing new business and increasing existing business by regularly going out on business building calls!"[3]

These contact officers work with clients to discover what their banking needs are. Then they help them plan how they can best use the many available services. The contact officer continues to monitor the account and to assist customers in resolving any problems they may encounter. They also provide clients with information or in securing needed services. Often, if a client is planning an activity that requires a specific bank service, the officer will arrange a meeting between the client and the bank executive in charge of that specific service.

Some small banks don't have an actual business development department. Instead they require every officer to make a certain number of sales calls each week or month. As in any other business, each officer builds a clientele. However, these clients are referred to the appropriate bank officer for each specific service as it is needed.

The officers who make business development calls must anticipate their clients' needs. And they must point out the benefits of the services their bank can offer to meet them. The differences between their bank and its competitors should be stressed. And all of the advantages of their institution should be emphasized.

Business development officers are public relations people. The personal contact they make with customers often makes the difference between a client's banking at one institution or another. Especially in commercial banking, clients want to feel that someone at the bank knows them, cares about their problems and needs, and is looking out for their best interests. This will make the difference in who gets their business.

Advertising and Sales Promotion

Primarily, business development officers seek and secure new business accounts. But personal banking customers are usually reached in a totally different manner. The same principles of personal service and continual sales effort on the part of all customer contact employees should be stressed here, as with commercial accounts. However, extra tools often used for developing personal banking customers are *advertising* and *sales promotions*.

Advertising can take several forms in both air and print media. Newspaper and magazine ads, TV and radio commercials, billboards, and direct-mail "flyers" inserted in customers' statements are all popular techniques. These ads are designed to reach a broad segment of the public.

Each ad should clearly state the sales message the bank wishes to convey. It's helpful to develop a series of ads for diverse media. Sending the same message in several ways usually increases its effectiveness. It leaves a stronger impression on the prospective customer.

Often banks will develop *slogans* that can be associated with their names, such as "the people place," "the bank with the personal touch," or "your friendly downtown banker." This slogan is then used in all their ads and becomes a trademark.

Because banking is such a closely regulated industry, advertising and sales promotions must be carefully monitored.

This insures that they meet all the legal restrictions imposed by the state and federal banking authorities. There are rules about the way certain information must be presented to the public. And it is essential to follow these guidelines.

In contrast to advertising, the term *sales promotion* usually refers to personal sales techniques. The overall sales promotion campaign is supported by its advertising. But lobby signs and displays, the personal sales efforts of employees, and the use of incentives, contests, and giveaways are the major tools of sales promotions.

Usually, the current sales promotion and advertising use the same theme. Bank officers and the marketing department and/or the bank's advertising/PR firm decide which bank services they wish to stress at any one time.

Their decisions may be prompted by a desire to increase business in a particular area, such as consumer lending or savings accounts. Or it could be stimulated by a particular season. Education loans as the school season opens or spring home improvement or vacation loans are examples. Sometimes community events such as rodeos, fairs, or founder's days will generate a theme.

Banks often contribute to community programs and activities such as little league teams, the arts, educational programs, or health service projects. Thus they earn visibility in the community.

Most sales promotions are geared toward personal banking customers. But advertising may be aimed at either individual retail customers or commercial clients. The target audience a bank wishes to reach determines which advertising medium is selected. Decisions must be made about whether to use TV or magazine ads, and also which TV stations, programs, and magazines to use.

Banks build and create an image through the kinds of promotions they use and programs they sponsor. This is very important since a bank's image affects the kind of customers it attracts. Therefore, advertising and sales promotions must be carefully planned.

To do this, most banks have at least one advertising officer, usually called the *marketing director*. Some banks have an entire marketing staff who develops and produces ads and promotions. This staff works with the printers and media salespeople.

Other banks use a smaller staff who works with an advertising or public relations firm. This firm is responsible for the actual production of the advertising, rather than the bank hiring their own staff of writers, artists, and media buyers.

No matter which method a bank chooses, all themes and campaign techniques must be approved by bank management officials. Only with their approval and support and the follow-through of every bank employee can a campaign be a success. Then the bank can achieve its major purpose of increasing sales.

Questions

1. What is the role of the *business development officer*?
2. What bank employees have a role in developing business for their bank?
3. List the duties of the *business development officer*.
4. What is the difference between *sales promotion* and *advertising*?

Project

Develop a sales promotion campaign for your bank's new ATM (automatic teller machine) service. Be specific about the types of external and internal media you employ to successfully launch this service.

Assignment 10

Bank Administration

Objectives: *After completing this assignment, you will be able to—*

- *Explain why banks need effective management.*
- *Name a bank's "three masters."*
- *Describe the* ***personnel function.***
- *Explain the task of the* ***purchasing and supply department.***
- *List the three main functions of the* ***accounting department.***

In an article in "Banker's Monthly," December 15, 1980, Paul S. Nadler, professor of finance, Graduate School of Finance, Rutgers University, states the following. "Every bank has three masters to serve: its community, its employees, and its stockholders."[1]

To be a successful business—to serve these masters and to protect its interests—a bank must be effectively and efficiently managed. Banks are semipublic institutions. This gives them a far greater responsibility than many other corporations.

Certainly, banks have the same responsibilities as any other business to their investors who finance them and to their employees who depend on them for their livelihood. But banks also have a grave responsibility to their clients who entrust them, unlike other businesses, with their money. If a bank fails, its effects are more far-reaching than those of any other business. Because of this, banks have an even greater need for control and careful management.

The administrative division of a bank has the primary responsibility for a bank's management function. The board of directors is charged with the legal responsibility for ensuring that depositors' funds are protected by internal controls. But the actual day-to-day management tasks are assigned to the senior management staff by the board of directors. Senior management is usually composed of the president and senior vice-presidents who head each of the major divisions of the bank. This group decides how policies of the board of directors will be interpreted and carried out.

Personnel

A major factor that controls how successfully a bank is operated is its employees. The personnel division is, therefore, vitally important.

This division is responsible for seeking out and hiring qualified employees. Most large banks use an active recruiting program. They send representatives to local high schools and college campuses to talk with students about career opportunities with their banks. They also advertise within the bank, for employees wishing to upgrade their positions. For recruitment outside the bank, they also use public means, such as local newspapers.

Personnel division employees should be well aware of all federal equal employment opportunity regulations. They should comply with these when interviewing and hiring. Good interviewing and hiring deci-

sions are critical to the success of a bank. Its employees *are* the bank to their customers. Also, a good initial decision will keep employee problems from developing later on.

After employees are hired, it's equally important that they receive proper and thorough training. This is also a task of the personnel division. Large banks often use a full training department, while smaller banks may employ only a training director. Others may simply turn over the total training responsibility to the department managers and supervisors.

The personnel department administers all employee benefits. These include insurance programs, vacation scheduling, and pension plans. They must handle all the paperwork connected with this duty.

Another personnel task is to mediate any employee grievances. This is a sensitive subject that requires a considerable amount of tact and skill.

Another personnel task that requires a high degree of skill is *employee performance reviews* and *exit interviews*. These are necessary for either voluntary or forced terminations. Some personnel departments handle all employee reviews. Others only deal with terminations and exit interviews. In the latter case, the reviews are performed by the supervisor or manager.

Usually, the payroll department is part of the personnel division. This department must process all weekly or monthly compensation with the deductions for taxes, insurance, and so forth. They also keep track of employee raises and bonuses, if any, and process them. This task calls for a large amount of paperwork, which must be accurately kept to keep things running smoothly.

Purchasing and Supply

Like any business, a bank must have equipment and supplies in order to operate. This is an administrative responsibility. And most banks have a department or individual that handles this task. Equipment must be evaluated, decisions made regarding its purchase, bids taken, and orders placed. Day-to-day supplies such as forms, pencils, pens, and teller machine paper must also be secured. These items must be inventoried, stored, and delivered to the departments or areas requesting them.

Another administrative task often performed by this same department is the posting of outgoing mail and the dispersal of incoming mail. Delivery of both mail and supplies is usually handled by the same employee or employees.

Accounting

Of course, banks must pay for all these supplies and pieces of equipment. They also must keep records of all their assets and liabilities. These, too, are an administrative responsibility. Since banks must hold and safeguard depositors' money, it is vitally important that internal controls be used to supervise each department. This ensures that all management policies regarding procedures are being carried out. This is the task of the *internal audit staff*, which is part of the accounting department.

Recordkeeping is perhaps the most important aspect of the accounting function. There are two key terms that finance employees should know. In the *journal*, which is a record of an original entry of each transaction of each department is kept. And in the *ledger*, a record of the final entries of transactions are kept. The ledger records are divided into two classes, *general ledger records* and *subsidiary ledger records*.

The general ledger covers and controls the basic information about the bank's income, assets, expenses, and liabilities. The subsidiary ledgers keep the detailed information that supports the general ledger data. Maintaining these records and preparing balance sheets and income statements on the bank is the major function of one part of the accounting department.

A major responsibility of another area of accounting is to analyze the data gathered

on every service the bank offers. This process, known as *cost accounting*, is used to determine if it is profitable to provide these services. These analysts then recommend which services their banks should offer and at what price to yield a profit. This is necessary to serve that second master, *stockholders*.

A second process, called *account analysis*, is also performed by the accounting department. This two-step process looks at the cost of the services used by each customer's account. First, the cost of each service for a particular account is determined. Then, accountants evaluate to what extent those costs are offset by the balances the customer maintains.

The last major function of the accounting department is performed by still another group of individuals. This task is to pay all the bank's bills and to maintain records of these transactions.

Questions

1. Why do banks, more than any other business, require effective management?
2. What are a bank's "three masters"?
3. List the five tasks of the *personnel department*.
4. What is the function of the *purchasing and supply department*?
5. List the three main functions of the bank's *accounting department*.

Assignment 11

Bank Investments

Objectives: *After completing this assignment, you will be able to–*

- *Define the terms* ***investment*** *and* ***liquidity.***
- *List three objectives of an* ***investment policy.***
- *Explain why these objectives are basically incompatible.*
- *Explain why banks maintain an* ***investment portfolio.***

It's been noted in earlier assignments that a bank is a free enterprise business. To be successful, it must make a profit to provide the income and dividends for its stockholders and operation. Assignment 6 described the lending function, which is one of the tools banks use to earn profit. The other major tool they employ is *investments.* Broadly defined, an investment is "... the outlay of money for either income or profit or both."[1]

Due to the special nature of the banking business, investment policies are regulated by law to a certain extent. Along with meeting the the legal requirements imposed on them, banks must meet three objectives with their investments. First, they must retain maximum *liquidity.* Second, they need to earn maximum *income.* And third, they must maintain maximum *security.* Viewed individually, these three objectives seem basically incompatible. Banks must make the necessary adjustments to achieve the largest percentage possible of each of them. This assignment describes each of these objectives and the way these adjustments can be made.

Liquidity

The term *liquidity* can be defined as "... the ability to obtain cash easily at a reasonable cost."[2] Liquidity is vitally important to any institution in the money-lending business. Banks use their funds to loan to others, and they obtain those funds from depositors. There is always a potential need for quick access to funds. The possibility also exists that borrowers will default on a loan. And banks must have enough funds in reserve to offset such losses. Also, depositors may wish to make withdrawals. Banks must always have enough funds on hand to meet these requests immediately on demand. These possibilities create the necessity for careful investments in securities that can be easily converted to cash.

Income

Banks must, of course, invest in securities that will earn them maximum profits. Banks that fail to meet their costs and pay dividends to their stockholders become unstable. Then they become a danger to the community they are supposed to serve. So profit is a very important consideration.

Earning profit, however, does not always coincide with maintaining liquidity or security. Those securities that yield the highest rates rarely are highly liquid, since they have longer terms. Nor are they the most secure, since the higher rates are granted to those who are willing to take the greatest risk.

Security

Banks must take every possible precaution to safeguard their depositors' funds. Maintaining total security would totally rule out risking those funds in any kind of investment since no investment is 100 percent secure. However, a reasonable amount of security can be achieved if investments are made carefully.

Adjusting to Meet Objectives

From the description of the objectives, it's obvious that a certain degree of compromise must be made among them. To do this, banks must establish their priorities when setting their investment policies. For all banks, the first priority is to meet their legal requirements. Next in importance is the maintenance of assets. Assets must be sufficiently liquid to meet any unexpectedly high withdrawals and to meet the loan demands of their community.

Finally, a secondary pool of investments with somewhat longer terms and higher profits must be retained. These must be sufficiently liquid to serve as a backup. They might need to be cashed in for emergency short-term loans or for extra income.

This schedule of priorities, along with legal restrictions, helps investment officers determine which types and terms of securities to invest in. Commercial banks usually invest in U.S. treasury, high-quality corporate, and municipal securities. By law, banks may not invest in common stock because of the extremely high risk of that market. Most of a bank's investments are in relatively short-term securities.

Investment officers always watch the securities markets. They carefully evaluate the percentage of return a given security yields in view of the time it ties up the funds. These officers also closely scrutinize economic trends and market conditions.

With this information, these officers then make their decisions about investment purchases. They always must keep that delicate balance among their objectives. They must maintain (1) sufficient liquidity to meet reserve requirements and unexpected withdrawals, (2) security for their depositors' funds, while they obtain (3) the highest possible income yield within the constraints of the first two objectives.

Questions

1. Define the terms *investment* and *liquidity*.
2. What are the three objectives of a good *investment policy*?
3. Why are these three objectives basically incompatible?
4. Why do banks maintain an *investment portfolio*?

Assignment 12

Banking Trends and Career Opportunities

Objectives: *After completing this assignment, you will be able to—*

- *Cite four major trends in banking today.*
- *List the three forces that are most responsible for those changes.*
- *Describe the qualities needed by a person desiring a banking career.*

Mary Lee and Charlotte were talking with their friend Tommy Sanchez. Tommy worked with Mary Lee at First National Bank. All three young people were discussing their career plans and future in the banking industry.

"I'm going into the lending division, if I can," said Mary Lee. "Since I've been working in customer service, I've seen a lot of customers come in about their loans. My department is right next to lending, too, and I've seen lending officers at work every day. It really looks interesting. I'd like being able to help people by granting loans for the things they need."

"That's great, Mary Lee, but I think I'd rather go into the international division. Since I've lived overseas while my father was working for Amalco, and since I know French and Spanish, I think I'd enjoy that division. I'd like to be able to use both my math and language skills," said Tommy.

"Gee," said Charlotte, "you two have such clear career plans. I'm still not sure. There are so many changes happening in banking today. It's tough to decide which direction to choose. One thing I do know is that I definitely want a career in banking. And I'd like to be in some marketing-related area. That's one part of the industry that's going to keep on growing no matter how many changes the industry goes through."

Mary Lee, Tommy, and Charlotte are right. The banking industry is a quickly growing one. And it will be facing continual change in the years to come. Changes in technology, legislation, and the consumer marketplace will make changes within the industry a must. A major factor all bankers will have to consider is the increasing importance and use of automation.

New Trends in Banking

Looking at the effects of automation on certain areas of banking reveals an important fact. In the near future, bookkeeping personnel will simply put checks on microforms at the bank of first deposit, instead of retaining these checks. This practice of nonreturn of checks is already practiced by many credit unions on their share draft accounts. And the public is accepting it well. This will be a money saver for banks and a time saver as well.

Further advances will also be made in the automation of check processing. *Cycle sorting* by statement date is just one example. This system is already in use on the West Coast at the Wells Fargo Bank. Within 48 hours after a check has been written at a branch office, data on the check is available to bank personnel on microfiche.

Greater use of automatic teller machines (ATMs) will provide customers with greater access to bank services. This is with regard to both location and time. Networks of ATMs will put more banks in more locations. This will give banks greater exposure to a wider market and will increase competition.

Perhaps the greatest trend is the continuing movement in the industry toward the electronic funds transfer systems (EFTs). According to Pete Hart, president and chief executive officer of Western Bancorp Data Corporation of Torrance, California, "The 80s are going to see the long-awaited maturity of EFT." He goes on to say, ". . . we are going to offer dramatically more on-line, real-time services [so] that we will have more and more paperless activity and . . . we will encourage the customer to do more things . . ."[1]

One feature of a full-service EFT system are *debit cards*. These are used at point of sale. These are already appearing in forms such as Master Card II, the University Savings Credit Card, and the Visa Debit card. The cards, linked to a book's demand deposit accounts (DDAs), operate like charge cards. But, rather than the customer receiving a monthly bill, payment for their purchases is automatically deducted from their checking account.

Full EFT will offer other features, too. These include a combined savings and DDA statement, automatic transfers from savings to checking, direct payroll deposit, and telephone banking. Another future trend seen by some bankers is home banking systems, using computers and home TV sets.

According to Kenneth Randall, president of the conference board and former chief of the FDIC, "Clearly, the most significant thing happening now is that many of the constraints on banking are being lifted."[2] Certainly, *deregulation* (lifting the legal constraints) is creating greater competition for bankers. With raised interest ceilings and many nonfinancial institutions entering the money market, there is a broader base of competition. Today, bankers must compete with both other financial institutions such as credit unions and savings and loans and with nonfinancial institutions. Companies like Sears, Penney's, General Electric, and Merrill Lynch now offer credit services and money market instruments. These were previously available only at commercial banks or some type of financial institution.

This increased competition will necessarily require some adjustments in bank services and marketing strategies. Again quoting Randall, "I predict we will see a turn from department store banking, a product of interest rate ceilings, to specialty format banking."[3] Randall goes on to say, "The *specialty bank is clearly the wave of the future*, even though it will mean a drastic shift from a system that has emphasized the 'gathering' of funds to a system that will emphasize the profitable 'employment' of funds."[4]

Jack Whittle of Whittle, Raddon, Motly, and Hanks, Inc., a Chicago marketing research firm, says the same. His company's research shows that narrowing the service line of commercial banks could help profits. He is quoted from the *Bank Marketing Report*, Volume 14, No. 9, February 1981. "Many banks currently are questioning the validity of covering all segments of the retail market. They are discovering that trimming their retail customer base frees up time to pursue the fertile field of small business accounts.

"As deregulation encourages product and price multiplicity, bankers realize that they cannot offer every product and service and expect to remain profitable."[5]

Besides changes in technology and legislation, bankers are facing incredible *social changes* that they must consider. Now more than ever, a good knowledge of *demographics*, the statistical breakdown of a population by age, income, education, and ethnic background, and also of *psychographics*, the art of measuring customer attitudes and states of mind, are necessary. Bankers must keep abreast of and allow for changes in shifting populations, increased average age, two-paycheck families, more

working women, smaller size families, and so forth. All of these things will require new forms of bank services.

In the words of Kenneth Randall, "Marketing will not be on the outskirts of this change but precisely where the action is. Marketing is banking's critical bridge and the link between the bank and its many publics."[6]

Randall predicts a productive network of large financial institutions as well as solid, independent banks that will provide local markets with first-class services. *This reduced number of financial institutions,* accomplished by mergers and acquisitions, *should offer expanded services for customers.*

Banking's challenge will be to meet the demands of changing markets.

With the advent of specialized banking, the critical bridge between banking and its new public will be top-quality, specialized marketing skills and expertise that will affect all levels of the industry. As Randall states, "Survival will depend on the *marketing of good, sound, banking concepts by first-rate people.* Increasingly, success will hinge on the ability of banks to analyze their personnel and on classic, old-fashioned marketing which is understanding what the bank 'can' and 'cannot' do and demonstrating this to the customer."[7]

Careers

The '80s marks the advent of expanding new automated services. But as Kenneth Randall says, qualified people will still be the key to a bank's success.

There will always be a need for qualified personnel in banks. Jobs will be available for bank tellers, loan officers, credit analysts, safe-deposit clerks, bookkeepers, auditors, cashiers and assistants, department managers, marketing and business development officers, vice-presidents and presidents, to name just a few. Further, some new jobs will require advanced education. Others will require no more formal education than a high school diploma. Banking is an industry that is well known for allowing people to progress up the executive ladder through on-the-job experience. However, those who do have a college background are likely to progress more quickly than those who do not.

Banking needs employees who are people-oriented and who truly wish to serve the public. Honesty and integrity are necessary traits, as are confidentiality and tact. The ability to think logically and to work with accuracy are of great importance. Of course, people-oriented skills such as communications and interpersonal relations are important for success in banking. Enjoying work with numbers and doing research are also necessary in some areas of banking.

Banks have become very active in making employee education opportunities available. Through the American Institute of Banking, courses are continually offered to assist bankers in upgrading their skills and knowledge. Many banks also provide college tuition assistance programs.

Banks also have recently been making more and more opportunities available for women. In fact, over 60 percent of bank employees today are women. More and more women are being drawn into the upper echelons of management. Minorities are also becoming better represented at all levels of banking.

Banking is a career field that can offer both a challenge and opportunities for anyone willing to work and apply themselves. This manual has presented descriptions of the various responsibilities and tasks involved in providing the four major bank functions. You should be able to get an idea of the type of position you are best suited for, both through your interests and your skills and aptitudes. The choices are many, the opportunities are there, and the decision is yours.

Questions

1. Cite four major trends in banking today.
2. What three major forces are causing these changes?
3. What will be the critical bridge between banking and its new public?
4. What qualities are needed for success in a banking career?
5. What are some benefits of working in banking?

Project

Investigate the level of education needed and the type of experience necessary for the area of banking in which you might like a career. Also diagram the internal career path you must follow to gain the experience you need for your goal for five years from now.

Notes

Assignment 2: "The Banking System"

1. *4000 Years of American Banking*, National Cash Register (NCR), Dayton, Ohio.

Assignment 5: "Support Services for the Paying and Receiving Functions"

1. Harold Wallgren, *Principles of Bank Operations*, rev. ed., American Institute of Banking, 1975, p. 94.

Assignment 7: "The Trust Function"

1. Harold Wallgren, *Principles of Bank Operations*, rev. ed., American Institute of Banking, 1975, p. 253.

Assignment 9: "Business Development, Advertising, and Promotion"

1. Sidney Edlund and Arthur Mitchell, *More Business for Your Bank, Vol. 1, Setting the Stage*, American Banker, Inc., New York, N.Y., 1972, p. 2.
2. Ibid., p. 27.
3. Ibid.

Assignment 11: "Bank Investments"

1. Harold Wallgren, *Principles of Bank Operations*, rev. ed., American Institute of Banking, 1975, p. 204.

Assignment 12: "Banking Trends and Career Opportunities"

1. *The Banking Journal of the American Banking Association*, May 1980, pp. 83-84.
2. Kenneth Randall, "Opinion—As Bankers Look Ahead," *Bankers Monthly, National Magazine of Banking and Investments*, September 15, 1980, p. 24.
3. Ibid.
4. Ibid., p. 28.
5. "Do You Need Narrower Service Lines?" *Bank Marketing Report, Vol. 14, No. 9*, February, 1981, p. 2.
6. Kenneth Randall, "Opinion—As Bankers Look Ahead," *Bankers Monthly, National Magazine of Banking and Investments*, September 15, 1981, p. 28.
7. Ibid., p. 30.

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